

WHY THE UNITED STATES NEEDS A WRITTEN  
NATIONAL ECONOMIC STRATEGY

A thesis presented to the Faculty of the U.S. Army  
Command and General Staff College in partial  
fulfillment of the requirements for the  
degree

MASTER OF MILITARY ART AND SCIENCE

by

JOHN R. BLACK, MAJ, USA

B.S., United States Military Academy, West Point, New York, 1983  
M.S.I.A., Carnegie Mellon University, Graduate School of Industrial  
Administration, Pittsburgh, Pennsylvania, 1992

Fort Leavenworth, Kansas  
1996

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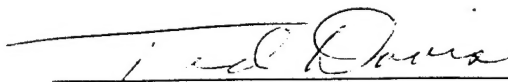
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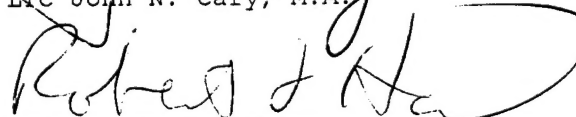
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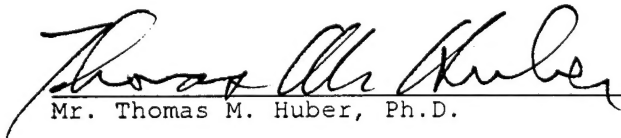
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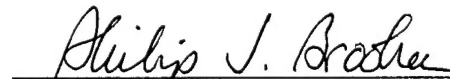
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The opinions and conclusions expressed herein are those of the student author and do not necessarily represent the views of the U.S. Army Command and General Staff College or any other governmental agency. (References to this study should include the foregoing statement.)



## ABSTRACT

WHY THE UNITED STATES NEEDS A WRITTEN NATIONAL ECONOMIC STRATEGY by  
MAJ John R. Black, USA, 98 pages.

This thesis proposes that the United States should have a national economic strategy (NES) document to provide direction for the many policymakers who implement the economic instrument of power. With the end of the Cold War, the United States faces a complex global security environment and must deal with numerous threats to its national interests. Decreasing relative military power implies that the United States will have to rely more on other instruments of power to attain its national security goals. This paper examines the current global security environment and the important role of economic power in the world economy. With this background, this study analyzes the effectiveness of the Marshall Plan as a written national economic strategy. It also examines how Japan successfully formulates and implements its domestic and international economic strategies. The thesis investigates the purpose, process, and products of U.S. national military strategy to determine if parallel economic strategy development is feasible. Finally, this paper identifies the ends, ways, and means of economic strategy that support and sustain national security strategy. It concludes with a recommendation for reorganizing U.S. economic policymaking agencies to formulate and implement the NES.

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## LIST OF ACRONYMS

AOR	Area of Responsibility
BUR	Bottom-Up Review
CG	Chairman's Guidance
CINC	Commanders in Chief
CJCS	Chairman, Joint Chiefs of Staff
CNASP	Chairman's Net Assessment for Strategic Planning
CPA	Chairman's Program Assessment
DITI	Department of International Trade and Industry
DPG	Defense Planning Guidance
ECA	Economic Cooperation Agency
EPA	Economic Planning Agency
ERP	European Recovery Program
DOD	Department of Defense
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
IMF	International Monetary Fund
IDC	Industrial Structure Council
JCS	Joint Chiefs of Staff
JPD	Joint Policy Document
JSCP	Joint Strategic Capabilities Plan
JSPS	Joint Strategic Planning System
JSR	Joint Service Review
LDP	Liberal Democratic Party

MITI	Ministry of International Trade and Industry
MOF	Ministry of Finance
MSA	Mutual Security Agency
NCA	National Command Authorities
NEC	National Economic Council
NES	National Economic Strategy
NMS	National Military Strategy
NSC	National Security Council
NSS	National Security Strategy
OEEC	Organization of European Economic Cooperation
OMB	Office of Management and Budget
PPC	Public Policy Company
PPS	Policy Planning Staff
SECDEF	Secretary of Defense
SECSTATE	Secretary of State
SSI	Strategic Studies Institute, U.S. Army War College
WTO	World Trade Organization

## CHAPTER 1

### INTRODUCTION

The end of the Cold War, the disappearance of the threat of communist expansion, years of federal budget deficits, and an annually expanding national debt are pressuring policymakers to decrease defense spending and reduce the size of the United States' Armed Forces. However, extremely complex and unpredictable threats to U.S. national security interests and worldwide peace and stability remain. Regional instability, the proliferation of weapons of mass destruction, transnational drug trafficking and terrorism, and dangers to democracy and reform present increased security risks to the United States and its national interests throughout the world.<sup>1</sup> Consequently, the combination of increasing risks and decreasing military forces implies that the United States will have to rely more on other sources of national power to attain the goal of "a more secure world where democracy and free markets know no borders."<sup>2</sup>

Despite increasing instability in many regions of the world, the quest for a Cold War "peace dividend" and, more importantly, a greater focus on U.S. domestic concerns, have reduced financial resources available for defense spending. The domestic agenda is now dominated by four internal issues or problem areas that concern the daily lives of every U.S. citizen: the trade deficit, the budget deficit, the social deficit, and the threat deficit.<sup>3</sup> The trade deficit is a result of U.S. imports exceeding exports. A large portion of this trade imbalance is with Japan (cars and electronic consumer goods).

The budget deficit is a result of the government spending much more than it receives in tax revenues. The national debt will continue to increase unless the federal government can generate a budget surplus to afford both interest expenses and principal payments annually. This is unlikely to occur anytime soon since neither the President nor Congress recommend elimination of the budget deficit for seven more years. The social deficit results from competing demands for financial resources to support socially desirable programs, such as education, law enforcement, housing, health care, public works, and environmental protection. Coincidentally, domestic demands for scarce resources have increased. There is no longer enough money for all previously funded government programs because of the pressure to reduce government spending. The threat deficit refers to the reduced risk to U.S. interests from its Cold War opponent, the U.S.S.R., and its allies. The lack of a clear unilateral threat increases Americans' expectations of benefiting from their Cold War victory "peace dividend."

Henry Kissinger, former Secretary of State and National Security Advisor, writes that domestic issues are leading the United States to gradually shift emphasis from its military strength to other sources of power as it prepares for the twenty-first century:

In the post-Cold War world, the various elements [of power] are likely to grow more congruent and more symmetrical. The relative military power of the United States will gradually decline. The absence of a clear-cut adversary will produce domestic pressure to shift resources from defense to other priorities--a process which has already started. When there is no longer a single threat and each country perceives its perils from its own national perspective, those societies which had nestled under American protection will feel compelled to assume greater responsibility for their own security. Thus, the operation of the new international system will move toward equilibrium even in the military field, though it may take decades to reach that point. These tendencies will be even more pronounced in *economics* [emphasis added], where American predominance is already declining, and where it has become safer to challenge the United States.<sup>4</sup>



Although he presents a somewhat pessimistic view of the future, Mr. Kissinger's remarks pose questions not only about America's influence as a world power, but also about the United States' role in advancing its own national security interests.

In February 1995, President Bill Clinton published his second national security strategy (NSS) document A National Security Strategy of Engagement and Enlargement. In the preface, he declares that the end of the Cold War has changed America's security imperatives. The central goals of President Clinton's national security strategy for the post-Cold War era include:

- To sustain our security with military forces that are ready to fight.
- To bolster America's economic revitalization.
- To promote democracy abroad.<sup>5</sup>

These goals are mutually supportive and can best be achieved by the appropriate blend of all instruments of national power. It is the role of the executive and legislative branches of the United States to decide when it is best to implement informational, diplomatic, economic and military instruments of the nation's strength in regions of the world where U.S. interests are threatened (see figure 1). The published national security strategy document provides the President's strategic vision and concepts of grand strategy to Congress and the American people.

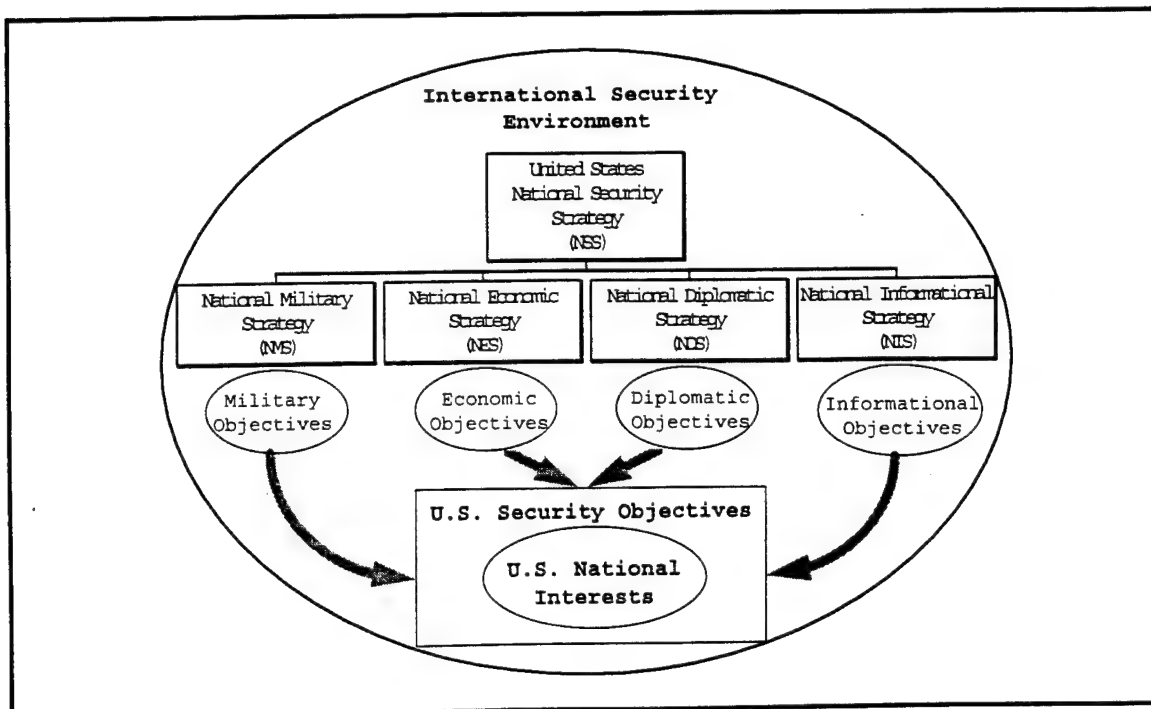


Figure 1. Strategies of the Four Instruments of U.S. National Power.

In discussing the making of American national strategy, Aaron L. Friedberg, Professor of politics and international affairs at Princeton University, writes that "grand strategy" usually refers only to periods of conventional warfare. He believes that the term "national strategy" is needed to plan for the use of various sources of state power to achieve both wartime and peacetime national objectives.<sup>6</sup> According to the Department of Defense, national security strategy is defined as:

The art and science of developing, applying, and coordinating the instruments of national power (diplomatic, economic, military, and informational) to achieve objectives that contribute to national security. Also called national strategy.<sup>7</sup>

The U.S. military establishment set a precedent by formulating a national military strategy (NMS) document that articulates how its

unique capabilities support and sustain the President's national security strategy. In the National Military Strategy of the United States of America, the Chairman, Joint Chiefs of Staff (CJCS) translates national security objectives into national military objectives and develops a strategy to promote regional stability and thwart aggression. Translating NSS objectives into NMS objectives is essential to accomplishing the national security strategy goal of sustaining U.S. security with forces that are ready to fight and win the nation's wars and to promote democracy abroad. This written document provides a framework with which to guide military leaders and the Commanders in Chief (CINCs) of U.S. Armed Forces as they employ the military instrument of power worldwide. CINCs with regional responsibilities use the strategic guidance from the NMS document and the classified Joint Strategic Capabilities Plan (JSCP) to determine military courses of action for accomplishing national objectives in their areas of responsibility (AORs). They also make recommendations to the National Security Council about pertinent diplomatic, economic, and informational courses of action that may protect and advance U.S. national interests.

According to the NSS, the national security goal of bolstering America's economic revitalization is achieved through "A vigorous and integrated economic policy designed to stimulate global environmentally sound economic growth and free trade and to press for open and equal access to foreign markets."<sup>8</sup> This assertive statement implies that the administration has a clear plan for employing U.S. economic power. The purpose of this study is to determine if it is appropriate and necessary for the United States to have a published document that outlines national economic strategy and provides a framework for the employment of the economic instrument of power. Most strategists agree

that the United States' economic and security interests are inseparable. The ability to finance a superior military and strong national defense requires a healthy and prosperous economy. With today's global economy, the security of the nation relies on its economic strength as much as, if not more than, its military and diplomatic might. Since the NMS document provides direction for the implementation of military power, it seems intuitive that a national economic strategy (NES) document would be as important to guide the many agencies and policymakers who implement economic power. Therefore, the proposed research question for this thesis is: Does the United States need a written document outlining national economic strategy?

Chapter 2 discusses the research methodology used to answer this question. This methodology analyzes the appropriateness and necessity of national economic strategy formulation and documentation. It provides a framework with which to address the primary and secondary research questions. Chapter 3 consists of the literature review for this analysis. This chapter presents a broad range of viewpoints pertinent to the different areas of research and analysis. Chapters 4 through 7 are used to conduct the primary examination of each research focus. These chapters have subordinate research questions that require responses. Initially addressed are the current and future global security environment and economy and their impact on U.S. power. The next chapter includes analysis of an example of how the United States effectively employed economic strategy in the post-World War II period. It also discusses how Japan currently implements national economic and industrial strategies. Chapter 6 evaluates the purpose, process, and end products of national military strategy formulation. The analysis should establish a link between the credibility of this process and a

similar process for economic strategy formulation. In Chapter 7, economic strategy is defined in terms of ends, ways, and means to determine its relevance to national security strategy. The final chapter includes the conclusions derived from this analysis and provides recommendations for further study.

The research for this thesis is limited in breadth and scope. The thesis examines the foreign economic policies of the United States in the immediate post-World War II period because of their long-term significance. The analysis of another country's strategic economic system is limited to Japan, one of the preeminent economic powers in the world. Time did not permit analysis of the economic policymaking purposes, processes, and products of nations such as Germany, Singapore or Taiwan.

Of the four instruments of national power, only the U.S. Military has a written strategy document. The thesis addresses the need for a written national economic strategy document and leaves the research and analysis of the diplomatic and informational instruments of power for other studies.

#### Endnotes

<sup>1</sup>The Joint Chiefs of Staff, National Military Strategy of the United States of America (Washington, DC: Government Printing Office, 1995), i.

<sup>2</sup>William J. Clinton, A National Security Strategy of Engagement and Enlargement (Washington, DC: The White House, February 1995), iii.

<sup>3</sup>Gary L. Guertner, The Armed Forces in a New Political Environment (Carlisle Barracks: U.S. Army War College, March 1992), 2.

<sup>4</sup>Henry Kissinger, Diplomacy (New York: Simon & Schuster, 1994), 23.

<sup>5</sup>Clinton, i.

<sup>6</sup>Aaron L. Friedberg, "The Making of American National Strategy, 1948-1988," The National Interest (Spring 1988): 65.

<sup>7</sup>The Joint Chiefs of Staff, Joint Publication 1-02 DoD Dictionary of Military and Associated Terms, (Washington, DC: U.S. Government Printing Office, March 23, 1994), 255.

<sup>8</sup>A National Security Strategy of Engagement and Enlargement (Washington, DC: The White House, February 1995), 7.

## CHAPTER 2

### RESEARCH METHODOLOGY

The methodology of this thesis examines the link between the current global security environment and the need for a written national economic strategy. Each chapter of analysis attempts to answer critical questions subordinate to the primary research question. In their order of analysis, the secondary questions are:

1. Does the future security environment foster the need for coherent and integrated national economic objectives?
2. Do models of successful written economic programs exist and do they validate the current need for a written NES?
3. Are the purpose, process, and product of national military strategy formulation applicable to the development of NES?
4. How can a NES document support and sustain the national security strategy?

The first analytical chapter, called "The Security Environment and Global Economy," examines the ideas and thoughts of economists, political scientists, and strategists about the future of the United States' national security environment and America's future role in the global economy. Specifically, the thoughts of "futurists," "declinists," and "revivalists" are analyzed to determine if the characteristics of the future security environment and global economy foster conditions that require national economic strategy formulation and documentation. President Clinton has identified four dangers currently threatening U.S. security interests. They include regional

instability, the proliferation of weapons of mass destruction, transnational drug trafficking and terrorism, and dangers to democracy and reform.<sup>1</sup> The end of the Cold War has changed U.S. priorities and affected how policymakers will employ the nation's instruments of power. The Armed Forces are downsizing and economics has risen to the summit of both the domestic and global agenda. Military force can and should be used to defeat aggression, enforce peace, combat drug trafficking, and provide strategic deterrence. However, the military alone is unlikely to solve the underlying problems affecting the instability of certain regions of the world. In Russia, ecological devastation, a health care crisis, and the transformation from a state-controlled economy to a free-market economy are conditions for long-term internal conflict.<sup>2</sup> The uneven distribution of wealth and scarcity of water in the Middle East creates an environment of uncertainty.<sup>3</sup> Famine, corruption, poverty, and the spread of infectious diseases on the African continent continue to foster instability in that region.<sup>4</sup> As all nations continue to become more interdependent, they are less likely to wage war. In these circumstances, economic aid and economic sanctions may play increasing roles in preventing regional conflict. Coherent economic policies may create incentives to prevent Third World nations from exporting conventional arms and developing weapons of mass destruction. This may be more amenable to nations that are wary of military threats.

Chapter 5, entitled "Economic Strategy Employed," presents an analysis of tangible economic policies employed by the United States after World War II. In order to determine if a written national economic strategy is appropriate and obligatory, it is necessary to determine if there are any historical or current examples where economic strategies protect and advance a country's national interests.



In this regard, Chapter 5 evaluates the effectiveness of the formal economic strategy implemented by the United States in the immediate post-World War II period. Primarily, the Marshall Plan (1948-1952) is analyzed, not solely as an instrument of American foreign policy, but also as a written economic program with specific economic goals for Western European nations. Additionally, this chapter discusses the international and domestic economic strategies currently employed by Japan. The analysis of the effectiveness of Japan's economic strategies may help determine if the United States should pursue a similar approach to national strategy. Should the well-documented economic programs of the Marshall Plan and Japan prove highly successful, the requirement for a written NES document may be validated.

Chapter 6, "Assessing National Military Strategy Development," analyzes the processes used to develop and revise national military strategy (NMS), and includes discussion of the Joint Strategic Planning System (JSPS). Obviously, different government organizations would be involved in the development of economic strategy. However, an examination of the purpose, process, and products of military strategy development should provide a means of comparing economic strategy formulation and documentation. The NMS document and the Joint Strategic Capabilities Plan (JSCP) operationalize national security strategy for the Armed Forces. The Chairman of the Joint Chiefs of Staff (JCS) is required, by statute, to conduct the Joint Military Net Assessment (JMNA) annually for the Secretary of Defense. In conjunction with the assessment of the military's defense capabilities and programs, the Chairman is required to conduct a joint evaluation of

the most current military strategy. Results of this evaluation and the Chairman's Net Assessment for Strategic Planning (CNASP) are included in the revised NMS document.<sup>5</sup>

The final analysis chapter, "Economic Ends, Ways, and Means," includes discussions of economic objectives that can be derived from national security objectives and analyzes the debate concerning whether or not economic policies should be implemented in a national security framework. In order to determine the efficacy of a formal national economic strategy it is important to ascertain key national economic goals. This chapter discusses whether or not economists and political scientists believe that the most important economic objectives should be derived from national security objectives. This chapter will show how security objectives, translated into economic objectives, support and sustain national security strategy.

By examining the future security environment, the Marshall Plan, Japan's strategic economy, the purpose, process, and products of NMS formulation, and important economic ends, ways, and means, the analysis chapters of this thesis should answer the secondary research questions and ultimately determine the need for a written national economic strategy document. The following chapter previews the primary literature relevant to the research and analysis for this thesis.

#### Endnotes

<sup>1</sup>William J. Clinton, A National Security Strategy of Engagement and Enlargement (Washington, DC: The White House, February 1995), i-ii.

<sup>2</sup>Stephen J. Blank, "Central and Eastern Europe," in World View: The 1996 Strategic Assessment From the Strategic Studies Institute, ed. Earl H. Tilford, Jr. (Carlisle Barracks, PA: U.S. Army War College, February 1, 1996), 14.

<sup>3</sup>Stephen C. Pelletiere, "The Middle East," in World View: The 1996 Strategic Assessment From the Strategic Studies Institute, ed. Earl H. Tilford, Jr. (Carlisle Barracks, PA: U.S. Army War College, February 1, 1996), 33-36.

<sup>4</sup>Steven Metz, "Africa," in World View: The 1996 Strategic Assessment From the Strategic Studies Institute, ed. Earl H. Tilford, Jr. (Carlisle Barracks, PA: U.S. Army War College, February 1, 1996), 38-41.

<sup>5</sup>The Joint Chiefs of Staff, Joint Publication 5-03.1. Joint Operation Planning and Execution System Volume I Extract (Washington, DC: Government Printing Office, August 1993), II-2.

### CHAPTER 3

#### REVIEW OF LITERATURE

This chapter discusses the body of literature used during the thesis research. Currently, there is no single-source NES document that is comparable to the NMS document in scope and purpose. The authors of this literature do not explicitly state that the United States should have a written economic strategy. However, these futurists and political and economic strategists represent the best in their respective fields. Their expertise will be used to answer the primary and secondary research questions. The review of their works is organized by each chapter of analysis.

#### The Security Environment and Global Economy

President Clinton establishes his national security strategy (NSS) and defines national goals and objectives in A National Security Strategy of Engagement and Enlargement. This document also describes the challenges of the future national security environment for the United States. President Clinton addresses the need to confront the previously mentioned four dangers to U.S. national security interests. The NSS document also describes the security environment of each vital region of the world.

There are divergent views about the sources of regional conflict in the next decade. Futurists and interpreters of currently emerging trends, including Alvin and Heidi Toffler, Robert Kaplan, and Samuel P. Huntington, provide insight about what they believe to be the

primary causes of conflict. These visionaries are authors of several books and articles about the problems confronting the world. In War and Anti-War, the Tofflers predict that the causes of conflict stem from the disparity in levels of technology. Kaplan views overpopulation, environmental decay, and scarcity of resources as the roots of future conflict in "The Coming of Anarchy." Huntington writes about the clashes between different cultures and civilizations as the primary cause of current and future conflict in "The Clash of Civilizations?" Despite their different theories, these futurists agree that the global security environment is very complex and full of regional conflicts that will disrupt world peace and stability.

In his article "The Strategic Environment of the Twenty-First Century," Thomas H. Etzold analyzes the possible interactions between traditional strategic premises and the structural changes in international affairs. He also tries to identify those regional interests that may result in international crises. For instance, he states that Third World debt could be a possible cause of conflict between the U.S. and other global economic powers in the next decade.<sup>1</sup> Additionally, Etzold writes that because of the emergence of economic powers in Europe and Asia, it will be:

- possible to be an economic power without being a military power.
- possible to wield great political influence without the corresponding military weight traditionally needed to do so.
- difficult if not impossible to be economically weak yet militarily strong and politically influential.<sup>2</sup>

There are a number of authors who believe that the United States is in a state of decline that may prevent it from projecting the magnitude of power it has in the past. The most famous "declinists" include Earl H. Fry, Paul Kennedy, Aaron Friedberg, C. R. Neu, Edward N. Luttwak, and Theodore Moran. Fry discusses the future economic challenges of the United States in The Naval War College Review

article, "Strategic Choices and Changes in the International Political Economy." He writes in great detail about the budget and trade deficits, the government's external debts, foreign investment, the fragile U.S. banking system, low wages, and the declining competitiveness of U.S. industries.

Paul Kennedy, author of "The (Relative) Decline of America" and Preparing For the Twenty-First Century, and Aaron Friedberg, author of several books and articles on U.S. economic decline, believe that increased American reliance on foreign goods, technology, and capital and the increased diffusion of important technologies could impose powerful constraints on U.S. diplomatic and military actions. They argue that, since World War II, the United States' share of world product, manufactured goods, and high technology goods has decreased. Additionally, Friedberg expresses concern about the increase in America's reliance on foreign investment. Foreigners are increasing their ownership of U.S. real estate, businesses, and government treasury bills and bonds. He claims that the growth of debt owed to foreigners leaves the United States too vulnerable to the wishes of foreign investors and can lead to U.S. economic decline. Both Kennedy and Friedberg advocate decreasing military expenditures and reducing strategic security commitments worldwide. Friedberg specifically asserts that the increase in defense spending in the 1980s led to the economic decline of the United States.<sup>3</sup>

In The Economic Dimensions of National Security, authors C. R. Neu and Charles Wolf, Jr., discuss the decline of the U.S. economy relative to the rest of the industrialized world. They write:

In recent years, investment as a share of total output has been lower in the United States than in most other industrialized countries. If this pattern persists, economic growth in the United States will almost certainly lag behind growth elsewhere in the world. The relative size of the U.S. economy--and with it U.S. influence in the international economic matters--will decrease.<sup>4</sup>

Theodore Moran and Edward Luttwak are two other "declinists" who believe that the United States has fundamental weaknesses in its economy. They repeat similar arguments that the United States will continue to lose world power as the role of the military decreases and its economy fails to dominate the international marketplace. In American Economic Policy and National Security, Moran writes that the United States can reverse its economic decline by managing trade to ensure market share for U.S. firms with "sophisticated neomercantilism" and by creating incentives for the development of critical technologies with "transnational integration."<sup>5</sup> Edward Luttwak, who wrote Strategy and History and The Endangered American Dream, echoes the belief that increased economic interdependence decreases countries' desires to fight one another. International trade, not military might, will establish a new course for world power. Luttwak also argues that military power will decrease in significance in the future as economics and finance become more important in influencing global power.

Countering those who believe in the inevitable decline of U.S. national power are the "revivalists." These authors include Henry R. Nau ("Leading the World Economy into the 1990s"), Richard Rosecrance (America's Economic Resurgence), and C. Fred Bersten ("The World Economy After the Cold War"). Their central argument is that the "declinists" have painted a false portrait of American might. They argue that the United States can maintain its status as the world's only superpower by being proactive. C. Fred Bersten, the Director of the Washington-based Institute of International Economics, believes that the United States, the European Community, and Japan will be "tripolar" economic powers in the twenty-first century. He argues that the relative international power of individual countries will derive

increasingly from their economic prowess. Therefore, military power will not be as important in the post-Cold War world. He writes:

The United States is the only superpower in both military and economic terms. It alone will remain in the top rank as the nature of world affairs changes. Indeed America may soon be the only military superpower. Such status, however, will be of decreased utility as global military tensions are substantially reduced and international competition becomes largely economic.<sup>6</sup>

However, the Tofflers argue that Bersten oversimplifies the threats in the future world security environment. They believe that economic strength alone is inadequate to quell the massive disturbances that occur as the three waves of civilization clash. They describe the Agrarian, Industrial, and Informational Waves of civilization that are continuously causing deadly conflict throughout the world. The Tofflers believe that the world will continue to experience more than just geo-economic wars. They write:

It [geo-economic reasoning] is too simple and it's too obsolete. Simple because it tries to explain world power in terms of only two factors--economics and military. Obsolete because it overlooks the growing role of knowledge--including science, technology, advanced economies and of military effectiveness as well. Thus the theory ignores what may be the most crucial factor of all in twenty-first century world power. We are entering not the geo-economic era but the geo-information era.<sup>7</sup>

The Tofflers also counter the argument that military conflict is less likely when nations become more interdependent on trade and international finance. They claim that global interdependence may have the opposite effect on the stability of the world. The bonds between nations will get very complicated as the three waves of civilization interact. Nations will have to consider the ramifications of their foreign policy decisions on their partners. This constant pressure could be destabilizing. They also make the point that historically, many warring nations had previously been trading partners.<sup>8</sup>



### Economic Strategy Employed

Other literary works used in this research provide extensive analysis of the European Recovery Program of 1948. Imanuel Wexler, author of The Marshall Plan Revisited, provides a retrospective assessment of the Marshall Plan as an economic program. He examines the implementation of the European Recovery Program and its economic accomplishments. Wexler specifically discusses the drafting, preparation, and execution of this foreign economic aid program. His analysis provides clearer perspectives for the pursuit of future national economic policies.

Henry Bayard Price actually evaluates the Marshall Plan and identifies its successes and shortcomings in The Marshall Plan and Its Meaning. Wexler, Price, and Charles L. Mee, author of The Marshall Plan, all provide excellent background for the global security environment and U.S. domestic conditions during the immediate post-World War II period. Their ability to discuss the specifics of the formulation, documentation, and implementation of this strategic economic program made this research much more efficient.

In an effort to analyze and evaluate the international and domestic economic strategies of Japan, one must first research the expertise of Chalmers Johnson. He has authored many books and articles on Japan and many consider him the preeminent expert on Japan's Ministry of International Trade and Industry (MITI). For a better understanding of this Japanese institution, Johnson's MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975, is required reading.

Dr. Thomas M. Huber provides excellent insight into Japan's domestic and international economic strategies in his book, Strategic Economy in Japan. Economic policy in Japan is formulated the same way

that diplomatic or military policy is developed in the United States. MITI prioritizes the nation's interests and controls the Japanese economy. It runs the economy by providing direct policy guidance and by controlling the major financial capital and material flows in and out of Japan.

Norman D. Levin, author of "The Search For Security," a chapter in Japan's Foreign Policy After the Cold War, discusses how Japan's strategy has been to focus its priorities and balance economic objectives with economic resources. Japan's economic system provides a different perspective for accomplishing national economic ends. The success of Japan's five-year economic strategy may be a viable, present-day model for a written national economic strategy in the United States.

#### Assessing National Military Strategy Development

Specific discussions about national military strategy and military strategy objectives are based on the Joint Chiefs of Staff National Military Strategy of the United States of America, 1995 and Joint Publications 5-03.1. Joint Operations Planning and Execution System, Volumes I and II. Analysis of the purpose, process, and documentation of national military strategy will consist of the opinions of Colonel Harry E. Rothmann, former Chief of Strategy Applications Branch, Strategy Division, The Joint Staff, and Lieutenant Colonel Don T. Riley, author of an Army War College monograph. Rothmann's analysis compares and contrasts the way the new military strategy was initially supposed to be developed and how it eventually was developed in 1992. He believes NMS formulation may not yet be perfect, but it is off to a successful start. Lieutenant Colonel

Riley, author of A National Military Strategy Process for the Future, is highly critical of the lack of long-range planning inherent in the NMS document.

The effectiveness of national military strategy is difficult to measure. It may take years to properly evaluate current U.S. military strategy. Don Snider's Strategic Studies Institute (SSI) monograph provides his analysis of the military strategy development and assessment process. Douglas Lovelace and Thomas-Durell Young, members of SSI, charge that the NMS provides inadequate guidance for the development of specific objectives. They also make recommendations for improvements to the NMS document. Certainly, how the United States emerges from the next national crisis will speak volumes about how well military strategy is developed and executed.

In this analysis, the thesis defines the products that result from the Joint Strategic Planning System (JSPS) as discussed in Joint Publication 5-03.1. Also used is Arthur F. Lykkes' equation for military strategy to assess how well the NMS document translates military ends, ways, and means into a strategy that effectively accomplishes U.S. national security strategy objectives. If the purpose, process, and products of the NMS are credible, then a frame of reference to evaluate the usefulness of NES formulation and documentation can be established.

#### Economic Ends, Ways, and Means

Arthur F. Lykke's equation for strategy can be used to develop an equation for economic strategy. The various components of economic strategy that would support and sustain national security strategy are then analyzed and discussed. The National Military Strategy of the United States is used as a model to translate objectives from A

National Security Strategy of Engagement and Enlargement into economic objectives. Richard Rosecrance presents several economic objectives in "Post-Cold War U.S. National Interests and Priorities." He stresses the importance of economic objectives in the current international security environment.

The works of Charles Wolf Jr. ("The Rise of Market Forces"), Mark Herander ("International Trade Relations, Trade Policy, and National Security: The Role of Economic Analysis"), and Jeffrey E. Garten ("Is America Abandoning Multilateral Trade?") are used to support the strategic economic concepts ("ways") for achieving economic "ends."

Graham Allison and Theodore Moran are two authors quoted to stress the importance of the strength of the domestic economy to maintain the "means" of economic power and facilitate economic strategy execution. Economic strategy is presented in terms of a national security framework. However, other economists and political scientists argue that economics is too broad a field to try to limit to national security goals. They contend that there are many aspects of a free market system that cannot be anticipated or planned by a government. Some academics believe that the United States must take care of its domestic economic problems before influencing the global marketplace.

Graham Allison argues for greater focus on the domestic economy and believes that restoring the American economic base is one of four primary objectives Americans should be debating and discussing. He states:

The U.S. objective should be to secure America's position as the world's largest and most productive economy for the next half-century, ensuring sustained real increases in our standard of living and providing the base for preserving our security and our values.<sup>9</sup>

He proposes that to accomplish this end, the U.S. must eliminate the budget and trade deficits. Otherwise, America will eventually have a deep recession that will bring the global economy down as well. Allison also addresses other economic objectives necessary for the United States to halt its perceived economic decline. He discusses incentives for increasing the U.S. savings and productivity rates, and he believes that policymakers must continue to eliminate barriers to American exports in nations that are overprotective of their industries.<sup>10</sup> However, he is not necessarily proposing domestic economic policies as part of a grand economic strategy to accomplish national security goals.

Colonel James R. Golden, Head and Professor of Economics for the Department of Social Sciences at the United States Military Academy, argues that casting economic issues in a security framework could hurt the nation's interests. Although he agrees that economics and national security are linked, he believes that economic policy should not be driven solely by national security interests. He writes:

In practice, economic policy is not formulated by the actors in the national security system, and it is not driven by national security strategy in any meaningful sense. By focusing on the narrow range of economic policy issues that are influenced by security strategy, the system de-emphasizes such key issues as productivity and competitiveness that are handled in other agencies. Moreover, by stressing threats to national interests in the international arena, an emphasis on economic security could incorrectly stress coercion against economic competitors rather than domestic policies to enhance competitiveness.<sup>11</sup>

Golden recommends "Cooperative Competition" as a framework for U.S. national strategy. He believes that productivity growth is the best long-term indicator of economic health of a nation and that technology development is the preferred means through which the United States can maintain its power and influence as the world enters the information age. Cooperative competition includes the creation of new

organizations that make technology policy and ensure the most efficient uses of technology in both military and civilian sectors. He believes national interests will be better served if the U.S. can make agreements with other industrialized nations about the rules of technological competition and the uses of global networks that will soon span the globe.

Samuel P. Huntington, prolific author of a number of sources of research, also argues that the United States should no longer use the security framework as the sole principle of organizing national strategy. He believes the U.S. needs to put the "national security state" of the postwar period behind it and should transition to a "competitive state," whose objective is "to enhance American economic competitiveness and economic strength in relation to other countries."<sup>12</sup> However, Huntington takes more of an isolationist approach and does not address the need for economic cooperation to accomplish national economic goals.

In this final chapter of analysis, arguments about how economic issues should be addressed are presented from both sides. The thesis concludes that a coherent domestic economic program should be an integral part of the overall national economic strategy. A healthy and prosperous U.S. economy provides the "means" by which economic strategists can implement "ways" to achieve desired U.S. economic "ends." By defining economic strategy in terms of ends, ways, and means, it is easier to determine if a written national economic strategy will support and sustain the U.S. national security strategy.

### Endnotes

<sup>1</sup>Thomas H. Etzold, "The Strategic Environment of the Twenty-First Century: Alternative Futures for Strategic Planners," Strategic Review 18 (Spring 1990), 26.

<sup>2</sup>Ibid., 28.

<sup>3</sup>Aaron L. Freidberg, "The Strategic Implications of Relative Economic Decline," Political Science Quarterly 104 (Fall 1989): 401-431.

<sup>4</sup>C.R. Neu and Charles Wolf Jr. The Economic Dimensions of National Security (Washington, DC: The Rand Corporation, 1994), xiii.

<sup>5</sup>Theodore H. Moran, American Economic Policy and National Security (New York: Council on Foreign Relations Press, 1993), 72-76.

<sup>6</sup>Fred C. Bergsten, "The Economy After The Cold War," The World Economy. (September 1990), 97.

<sup>7</sup>Alvin and Heidi Toffler, War and Anti-War: Survival at the Dawn of the 21st Century (New York: Little Brown, 1993), 17.

<sup>8</sup>Ibid., 211.

<sup>9</sup>Graham Allison, "National Security Strategy for the 1990's," America's Global Interests: A New Agenda, ed. Edward K Hamilton, (Washington, DC: W. W. Norton & Company, 1989), 218.

<sup>10</sup>Ibid., 218-219.

<sup>11</sup>James R. Golden, Economics and National Strategy in the Information Age (Westport, CT: Praeger Publishers, 1994), 7.

<sup>12</sup>Samuel P. Huntington, "Advice for a Democratic President: The Economic Renewal of America," National Interest, no. 26 (Spring 1992): 17.

## CHAPTER 4

### THE SECURITY ENVIRONMENT AND GLOBAL ECONOMY

The United States confronts a global security environment awash in uncertainties and instabilities. Threats to U.S. national security and its interests abroad can appear quickly and unexpectedly. In order to overcome these threats, U.S. decision makers must understand the rapidly evolving security environment in order to effectively implement diplomatic, informational, military, and economic instruments of national power to protect and advance national interests abroad. The United States' role in this new global environment is changing as abruptly as the unfolding world events. The nations of the world may never again behave as they did during the Cold War. Does the future security environment support the need for NES formulation and documentation? The United States needs to reassert some measure of control over its national security environment and be proactive, not reactive.

President George Bush presented his vision of a "New World Order" in a speech to the General Assembly of the United Nations in October 1990:

We have a vision of a new partnership of nations that transcends the Cold War. A partnership based on consultation, cooperation, and collective action, especially through international and regional organizations. A partnership united by principle and the rule of law and supported by an equitable sharing of both cost and commitment. A partnership whose goals are to increase democracy, increase prosperity, increase the peace, and reduce arms.<sup>1</sup>



President Bill Clinton expresses similar strategic vision when discussing the central goals of the U.S. national security strategy (NSS) in the current international environment:

Our national security strategy reflects both America's interests and our values. Our commitment to freedom, equality and human dignity continues to serve as the beacon of hope to peoples around the world. . . . Our prospects in this new era are promising. The specter of nuclear annihilation has dramatically receded. The historic events of the past two years . . . suggest this era's possibilities for achieving security, prosperity and democracy.<sup>2</sup>

These presidential excerpts are very optimistic about the future global security environment and America's role in enhancing national security, bolstering economic prosperity, and promoting democracy. Although the unilateral threat of Soviet forces enveloping western democracies through conventional military aggression no longer exists, there are many other forms of threats currently endangering U.S. national security interests and world peace.

As Congress and the President clash over how best to utilize scarce financial resources to eliminate the federal budget deficit, political and special interest groups continue to apply domestic pressure for reducing defense spending and downsizing the Armed Forces to pay for more socially desirable programs. Despite the many potential national security threats, the domestic agenda of the Clinton Administration and Congress' desire to decrease government spending has resulted in a reduction of America's military forces.

As America's Armed Forces are getting smaller, the missions assigned to the military are becoming more diversified. Additionally, military operations of support and stability must now include interstate cooperation, coalition building, and multiorganizational coordination. Currently, the United States military, clearly the best

trained and most technically advanced fighting force in the world, finds itself in a supporting role to complement diplomatic, economic, and informational instruments of U.S. national power.

To assess the dangers in the international security environment, it is important to recognize the likelihood of increased conflict. Despite the declining threat of massed armed invasions with the passing of the Cold War, a new era of instability has evolved. The challenges of formulating national security strategy have magnified considerably. The importance of a coherent and integrated strategy is well stated by Brad Roberts:

Effective policies that secure and advance U.S. interests require both the setting of old analytical frameworks and a careful assessment of new realities. They also require the integration of defense policy with other diplomatic, economic, and political instruments of national and international security.<sup>3</sup>

The United States remains the only true superpower that can draw its strength from both military and economic resources. However, power in the international community has become more diffuse because there is no longer an overriding ideological threat forcing nations to take sides. Individual countries and even subnational groups are free to pursue their own interests that may infringe on their neighbors' welfare. In the absence of a potentially dominating world power, nations do not view threats to their security the same way they did during the Cold War. They are more willing to challenge the state or group that threatens their territory, culture, ethnicity, and natural resources. Despite the temptation of U.S. policymakers to force America's values on the increasing number of emerging democracies, the United States' ability to employ its power to shape the rest of the world has actually decreased.<sup>4</sup>

The diffusion of power throughout the world is already evident. Japan, a formidable economic power, is a significant source of capital

investments abroad and a major donor of foreign aid. China's enormous untapped resources and population make it a potential world power with which to contend. The continued economic growth of Japan and China could justify and support increased military capabilities. China and North Korea are significant exporters of military hardware. Arms exports have helped to increase the effectiveness of Third World militaries steadily over the past twenty years. The improvement of conventional armies and the proliferation of nuclear, biological, and chemical weapons technologies make America's security objectives extremely challenging.

Alvin and Heidi Toffler, Robert Kaplan, and Samuel P. Huntington are renowned interpreters of emerging trends who have published their divergent views about the future international security environment. The Tofflers believe the world is trisected or "divided into three contrasting and competing civilizations--the first still symbolized by the hoe (First Wave Civilization); the second by the assembly line (Second Wave Civilization); and the third and most recent by the computer (Third Wave Civilization)."<sup>5</sup> The Third Wave Civilization generates enormous friction because of the inability of the First and Second Wave societies to keep pace with this fast-paced information technology-based society. The Tofflers explore the conflicts and wars resulting from the global changes brought about by the industrial revolution. During this period, the Second Wave clashed with the First Wave until a quasi-equilibrium was formed. However, this transition is not yet complete. Second Wave institutions still exist and their political lobbyists still cling to power:

In the meantime, the historic change from a bisected to a trisected world could well trigger the deepest power struggles on the planet as each country tries to position itself in the emerging three-tiered power structure. Trisection sets the context in which most wars from now on will be fought. And those wars will be different from those most of us imagine.<sup>6</sup>

The Tofflers' gloomy prediction of future conflict is based on their theory that each of the three waves of civilization have divergent needs. First Wave economies seek land, energy, access to water, food, minimal literacy and markets for cash crops or raw materials as their essential needs. Second Wave economies are more urbanized and have greater requirements for food, energy, and raw materials to operate their factories and are major exporters of pollution and environmental toxins. States in the Third Wave tier have no need for additional land and only need access to energy, resources, and food. Their interests lie in controlling and having access to world data banks and telecommunication networks. They need markets for financial services, transportation systems, consulting, information management, simulation products and other technology-driven services. The different national interests of the trisected world will produce sharp tensions among countries for years to come. However, the Tofflers conclude with a positive view that the proliferation of Third Wave economies can help to feed and educate billions of people, will require less pollution-causing energy, and will increase the wealth of nations.<sup>7</sup>

Robert Kaplan writes that diminishing natural resources will lead to increased conflict in the twenty-first century. Infectious disease, deforestation, crime, soil erosion, water depletion, and air pollution will lead to mass migrations of people and attempts by neighboring countries to seize scarce resources from one another. Environmental scarcity will inflame existing hatreds and affect power

relationships. Kaplan believes that the changes brought about by the collapse of the Iron Curtain are only minor compared to what is yet to come. He writes:

Physical aggression is a part of being human. Only when people attain a certain economic, educational, and cultural standard is this trait tranquilized. In light of the fact that 95 percent of the earth's population growth will be in the poorest areas of the globe, the question is not whether there will be war (there will be a lot of it) but what kind of war. And who will fight whom?<sup>8</sup>

Kaplan continues to argue that future wars will be those of communal survival caused by a scarcity of resources. Wars will be fought by subnational groups, not necessarily individual nations. State governments will lose legitimacy and cease to have power.<sup>9</sup>

Samuel P. Huntington predicts that there will be conflicts between the different cultures and ethnic groups across national boundaries or within a nation's own borders. This is similar to what is currently unfolding in Bosnia-Herzegovina. Normally the conflicts are over territory and culture or ethnicity. Huntington also claims that states will continue to compete for relative military and economic power. He analyzes the history of clashes between various civilizations and concludes that there are three phenomena that have lead to conflict in the past and will lead to conflict in the future. He calls the first conflict "West versus the Rest." This represents the resentment from many non-western countries about the pressure to "westernize." Huntington's second clash concerns "torn countries" that are redefining their civilizations and reshaping their borders along cultural and ethnic ties. Finally, there is increasing conflict from the Confucian and Islamic Civilizations that represent most of the anti-west nations. They are continuing to acquire conventional weapons and weapons of mass destruction.<sup>10</sup>

Despite the differences in their analyses, the Tofflers, Kaplan, and Huntington have all come to the conclusion that the future international environment will be highly complex. Conflict in some form and on different levels is inevitable. This makes achieving the goals of U.S. national security strategy more difficult and uncertain.

The situation appears even worse in the analyses of several American strategists known more recently for their "declinist" views of the United States. This group of theorists, including Paul Kennedy, Aaron Friedberg, Edward Luttwak, Earl Fry, and Theodore Moran, believes that the United States is experiencing a relative decline in world power and will not be able to maintain its superpower status.

Kennedy's central argument is that the key to national power is economic strength. Behind every past military victory lies economic superiority. Since America's share of world production has decreased from forty percent in 1945, to only twenty percent in 1987, its ability to project global power is diminishing. The rise and fall of states are therefore a function of the redistribution of wealth and economic power. Kennedy contends that the U.S. may be spending too much on defense and is suffering from "Imperial Overstretch." Policymakers are committing the country into too many areas simultaneously, causing America's power to become more diffuse and allowing it to erode relative to the rest of the world. This relative decline could be acceptable as long as U.S. leaders adjust to the changes in the post-Cold War world so that U.S. power does not erode too far too fast. U.S. military and economic strength will likely remain greater than any other individual country. However, it will not be as superior as it has been in the past.<sup>11</sup>

Aaron Friedberg believes that increased reliance on foreign goods, technology, and capital, and the increased worldwide

distribution of strategically significant technologies could impose powerful constraints on U.S. freedom of diplomatic and military action. He also notes the decreasing U.S. share of world product and the decline in U.S. manufacturing. Additionally, America's lower share of world technology exports and its increased reliance on foreign investment are proof that America is in a state of decline. These problems impose limitations on the use of military and diplomatic instruments of power in preventing the United States from controlling its future security environment.<sup>12</sup>

Friedberg writes:

National security policy may, therefore, come to encompass measures designed to reduce a country's vulnerability to economic influence attempts (and perhaps, to enhance its capacity for exploiting the vulnerability of others), as well as the more traditional forms of preparation for military defense.<sup>13</sup>

Having presented the "declinists'" main arguments, it is important to note that the majority of them believe that the United States will face significant challenges at maintaining its world power status in the future.

Despite this general view that American power has become more diffuse and that its military and economic superiority may be in decline, there is another group of authors who believe that the United States can take specific actions to halt U.S. decline and ensure the nation continues as the world's sole superpower. These "revivalists" include Henry R. Nau, Richard Rosecrance, and Joseph Nye. They believe that the "declinists" have gone too far in predicting the demise of America and feel that the United States is not as bad off as it is portrayed.

Henry R. Nau argues that human failure and shoddy policymaking have caused national economic problems since 1967. He is optimistic

that human successes and solid decision making can continue to maintain America's status as the world's greatest power. Nau argues that the American way of life is prevailing across the globe and democracies are continually emerging:

America leads today, less by sheer size of resources and dominance of international institutions, than by its domestic purposes and procedures, which are widely admired and increasingly emulated around the world. In short, America leads by knowing what it stands for politically and by getting its own house in order economically. The choice-oriented ideas of assertive, but tolerant, national purpose and market-oriented, but equitable domestic policies are more relevant today than ever before, decidedly because America has less relative power to lead by other means.<sup>14</sup>

Rosecrance and Nye, in response to the declinist camp, argue that the United States can reverse these declining trends. Some of Rosecrance's preconditions for resurgence include the reduction of the federal budget deficit, the raising of educational standards, increasing national savings, and increasing research and development for dual use technologies. Nye argues that power has become diluted because the world is increasingly interdependent and complex. The traditional form of global power--military strength--is less centralized. He believes that power and influence will stem from financial flows, mass communications, multinational firms, and other areas in which the United States has the comparative advantage.

One common thread throughout the experts' analyses of the state of America is their concern about the strength of the U.S. economy and its influence abroad. They foresee conflict rising from the scarcity of resources around the globe. As military power becomes more diffuse and U.S. policymakers search for ways to reassert America's dominance, the role of economics will become more important. Economics is the science of scarcity. The management of scarcity is required because resources (land, labor, and capital) and technology are both limited.



Economics is focused on the study of how people and societies choose to allocate scarce resources among competing demands. Implementing sound economic policies means making difficult decisions.

C. Fred Bersten writes of his concern for the world economy in the 1990's and beyond. He admits that the end of the Cold War has allowed for substantial reductions in military arsenals. He believes that as the world changes and economic globalization prevails, economics will move much closer to the top of the global agenda. He envisions the world economy becoming "tripolar" between the United States, the European Community, and Japan. As a result, global military tensions will decline and international competition and conflicts will become primarily economic.<sup>15</sup>

Continued global economic integration affects all dimensions of security. The dispersal of military capabilities brought about by economic globalization and the transfer of arms and technologies will enable Third World nations to become more of a threat to their neighbors and U.S. security interests. Poorer nations will use whatever means are available to find solutions to their economic problems. This can be very destabilizing to regions of the world where the United States has national interests. The government agencies responsible for developing international economic policies need clear guidance and direction during this era of complexity and uncertainty. More thought must be given to developing a clear framework for implementing U.S. national economic strategy. In the long run, how well nations manage to direct the flow of national resources to achieve both wealth and power will be critical to the stability of the national security environment.

The new world order depends very much on the choices the U.S. makes and the leadership it seeks to exercise. Domestically, this is a

period of steady, but low, economic growth, low inflation, and low unemployment. There is now an opportunity to lead the world economy toward greater coherence. Many policymakers tend to focus strictly on domestic economic policies. The United States has the single largest economy in the world. It must provide world leadership to prevent chronic economic instability. As military power becomes more diffuse, the United States needs to harness and focus its economic power to influence the global security environment. National economic strategy should not be implemented ad-hoc or based on trial and error.

An additional complexity in formulating and implementing economic strategy is the diversity of government departments and agencies involved. These agencies include the Departments of Treasury, Commerce, State, Defense, Agriculture, and the U.S. Trade Representative. The National Economic Council, the Office of Management and Budget (OMB) and the Council of Economic Advisors also have input into the economic policymaking process. The United States needs to have a method of focusing the efforts of the agencies that implement different aspects of U.S. economic strategy.

A common prediction of futurists, declinists, and revivalists is that the future security environment will be very complex and volatile. They also agree on the increasing relevance of the economic instrument of power in the new world order. Because of this, the United States needs coherent and integrated national economic objectives in order to protect and advance its national security interests at home and abroad.

# Endnotes

<sup>1</sup>President George Bush, "The UN: World Parliament of Peace," Dispatch 1, no. 6. (Washington DC: U.S. Department of State, October 8, 1990), 152.

<sup>2</sup>President William J. Clinton, A National Security Strategy of Engagement and Enlargement (Washington, DC: The White House, February 1995), iii.

<sup>3</sup>Brad Roberts, "Introduction," U.S. Security in an Uncertain Era (Cambridge: MIT Press, 1993), vii.

<sup>4</sup>Henry Kissinger, Diplomacy (New York: Simon & Schuster, 1994), 809.

<sup>5</sup>Alvin and Heidi Toffler, War and Anti-War: Survival at the Dawn of the 21st Century (New York: Little Brown, 1993), 21.

<sup>6</sup>Ibid., 25.

<sup>7</sup>Ibid., 248-251.

<sup>8</sup>Robert Kaplan, "The Coming Anarchy," The Atlantic Monthly (February, 1994): 73.

<sup>9</sup>Ibid., 74.

<sup>10</sup>Samuel P. Huntington, "The Clash of Civilizations?" Foreign Affairs (Summer 1993): 39-48.

<sup>11</sup>Paul Kennedy, "The (Relative) Decline of America," The Atlantic Monthly (August 1987): 37.

<sup>12</sup>Aaron L. Friedberg, "The Strategic Implications of Relative Economic Decline," Political Science Quarterly 104 (Fall 1989): 431.

<sup>13</sup>Aaron L. Friedberg, "The Changing Relationship Between Economics and National Security," Political Science Quarterly 106 (Summer 1991): 273.

<sup>14</sup>Henry P. Nau, "Leading the World Economy into the 1990's," The Myth of America's Decline (Oxford: Oxford University Press, 1990), 371.

<sup>15</sup>C. Fred Bersten, "The World Economy After the Cold War," Foreign Affairs 69 (Summer 1990): 96-101.

## CHAPTER 5

### ECONOMIC STRATEGY EMPLOYED

This chapter discusses how two nations have used the economic instrument of power within the context of a national economic strategy to advance and protect their national security interests. The first example examines the purpose of U.S. economic policy development and its role in the reconstruction of Western European nations in the post-World War II period. The objectives of U.S. policy during this period were to promote economic prosperity, to create and maintain political stability and peace among its allies, and to contain the spread of Communism. These goals are very similar to current U.S. national security strategy objectives. The examination of the postwar period includes the analysis of the product--The Marshall Plan--resulting from economic strategy formulation as well as the role of government institutions in the development and implementation of economic policy.

The second example introduced in this chapter is a strategic economic model in a different national context. It includes analysis of the purpose of Japan's economic strategy and the process by which its internal bureaucracies create and execute economic policy. Japan's domestic and international economic policymaking apparatus provides a current illustration of how formal national economic strategy can successfully achieve national strategic goals. Japanese policymaking institutions provide an excellent example of how agencies should formulate, write, and execute national economic strategic policy. The

success of these well-documented economic programs may validate the current need for a written U.S. NES document in the current global environment.

#### Post-World War II European Recovery Program

In the post-World War II security environment, the United States was concerned with both the threat of Communist expansion and the economic stability in Europe. Western Europe lacked the financial capital to rebuild its own war-torn industrial bases. Great Britain was experiencing serious economic and financial difficulties as a result of its lengthy involvement in the war. It was in no position to guide Western Europe's economic recovery and reconstruction. Germany's economy had stagnated and it was having difficulty rebuilding its postwar economy. Neither Great Britain nor Germany had access to the hard currency necessary to reconstruct their respective infrastructures nor help in the recovery of the rest of Western Europe.

The end of World War II created one of those rare moments in U.S. history when policymakers were able to implement an economic vision that was both idealistic and feasible. The United States emerged from the war as the dominant political and economic power. U.S. policymakers recognized the need to promote long-term political and economic stability in order to ensure peace on the European continent. In fact, the Truman Administration used economic foreign policy as the main instrument of U.S. security strategy from 1945 until the Korean War in 1950. The U.S. also promoted and supported two world economic organizations to improve the global economy. These organizations, the International Bank for Reconstruction and

Development (the World Bank) and the International Monetary Fund (IMF), were formed to further the development of the economic systems of the industrialized world.<sup>1</sup>

The IMF and the World Bank were established during the Bretton Woods (New Hampshire) Agreements of July 1944. These global financial institutions set the stage for freer world trade and convertible currencies. The Bretton Woods Agreements specifically provided for international economic cooperation. The negotiators made provisions for Western nations to trade with Eastern nations. However, the Soviet Union failed to ratify the agreements in December 1944, after initially agreeing to do so in July. The Soviets were afraid that further investigation into their own economy would reveal its relative economic weakness. This nonparticipation fueled the ideological differences of the two world powers and significantly heightened tensions of the new-fashioned Cold War.

Also, before the end of the war, the U.S. State Department was already working at expanding world trade and improving U.S. prosperity and economic security. A State Department memorandum of February 1944 stressed the important link between economic strategy and national security:

The development of sound international economic relations is closely related to the problem of security. The establishment of a system of international trade which would make it possible for each country to have greater access to world markets and resources would reduce incentives to military aggression and provide a firm basis for political cooperation. Conversely, if such a system is not established, the international frictions which would result in the economic field would be certain to undermine any international security organization which might be created. Past experience makes it clear that close and enduring cooperation in the political field must rest on a sound foundation of cooperation in economic matters.<sup>2</sup>

The State Department made a case for using diplomatic and economic instruments as the primary sources of national power in lieu of a large

peacetime military in the postwar period. The global financial institutions (IMF and World Bank) were not quite capable of aiding Western Europe until they had a chance to accumulate financial capital. The Western European nations needed immediate economic aid.

The policymakers of the Truman Administration faced many of the same problems confronting the United States today. They wondered which U.S. national interests should take precedence and what instruments of power they should use to further the nation's interests.

Coincidentally, the Armed Forces were reduced in the absence of conventional military threats from both Japan and Germany. Internally, there was a movement by politicians to reduce spending abroad and to turn the nation's attention toward its own domestic ills. Despite the political pressure, Truman and Marshall had the vision of establishing a world order that integrated the Western democracies and reduced conflict among the non-communist nations. They believed that the foundation of America security was a healthy and interdependent world economy.<sup>3</sup>

Before U.S. policymakers were able to accurately implement their vision in a coherent strategy, the United States provided foreign aid on an ad-hoc basis to Great Britain and France after terminating the Lend-Lease Program to both nations. In 1945 and 1946, the U.S. feared that Soviet Communism would fill the vacuum created by the political instability in Italy and France. Financial aid was given to each nation in order to invigorate their economies and better enable them to resist Communist expansion. American strategists hoped that France would replace Germany as the most powerful nation on the European Continent. Great Britain received a low-interest \$3.75 billion loan from the United States to meet its short-term debt payment problems. This was neither very popular with the U.S. Congress nor

incorporated into a coherent economic strategy for the region. Britain received the loan because it was the United States' closest ally. Without a basis in a coherent, long-range strategy, this foreign economic aid failed to invigorate European economies and the region suffered through an even worse recession in 1947. What passed as economic strategy toward these three nations was clearly incoherent or nonexistent. According to Robert A. Pollard:

Vigorous U.S. leadership was in any event sorely lacking during 1945 and 1946. Left to their own devices, Britain, France, and Italy scrambled to protect native industries, making little progress toward a viable regional economy. Until the winter 1947 crisis forced a reevaluation, American policies toward these countries followed an erratic and drifting course.<sup>4</sup>

America's ad hoc policies toward these three countries failed to solve their economic woes and never achieved the national objective of bringing France politically closer to the West. The war had damaged these economies far more than anyone realized. Piecemeal, uncoordinated U.S. economic aid programs failed to establish the trading relationships necessary to allow the West European economies to recover. The allies could not solve these problems without the harmonious integration of West European economies and a clear and coherent economic strategy for this important region of the world.

By mid-February, 1947, the British government notified the United States that it could no longer afford to provide military and economic aid to Greece and Turkey. Without this assistance, Greece would find it difficult to survive as a free nation. It could not afford to import the food necessary to restore order and establish conditions for its economic and political recovery. Turkey needed financial assistance to modernize its military to defend its borders



against the expansion of Soviet Communism.<sup>5</sup> In his address to Congress on 12 March 1947, President Truman requested \$400 million for these two beleaguered nations. He stated:

I believe that we must assist free peoples to work out their own destinies in their own way. I believe that our help should be primarily through economic and financial aid, which is essential to economic stability and orderly political processes.<sup>6</sup>

This request for economic aid to contain Communism in Europe became known as the Truman Doctrine. It demonstrated the Administration's desire to implement the economic instrument of power to achieve U.S. national security objectives.

In April 1947, Secretary of State George C. Marshall appointed George F. Kennan to head a Policy Planning Staff (PPS) to formulate the principles for a European reconstruction program. He cited the need for such a staff due to a lack of appropriate central (economic) policy planning by the U.S. government.<sup>7</sup> Marshall concluded that economic recovery, not the threat of Communism, should be the focus of national strategy. His coherent national economic strategy became known as the Marshall Plan:

One of the most noteworthy examples of the long-term use of trade policy to promote national ideological and political viewpoints worldwide is the post-World War II containment on the part of the United States to multilateral, nondiscriminatory trade liberalization among the industrial democracies. The intent of U.S. policy was to promote prosperity, political stability, and peace among its allies.<sup>8</sup>

On 5 June 1947, at the commencement exercises of Harvard University, Secretary Marshall gave a speech that was the blueprint for what was formally known as the European Recovery Program (ERP). His speech included the following comments:

Aside from the demoralizing effect on the world at large and the possibilities of disturbances arising as a result of the desperation of the people concerned, the consequences to the economy of the United States should be apparent to all. It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our doctrine is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist.<sup>9</sup>

Marshall's proposal was ultimately converted into an extensive plan of action. The purpose of his plan, as stated in the last three lines of the excerpt above, was to revive the world economy and to foster political and social conditions that promote democracy. These goals are very similar to current national security objectives. Leaders from both Europe and the United States agreed to the series of charters and agreements comprising the Marshall Plan. The Plan was a well-crafted economic strategy framework for the recovery of Western Europe. "On both sides exceptionally able administrators, legislatures, and technicians were engaged; their services were the more needed since the problem faced was extraordinarily complex and in many ways new."<sup>10</sup> This was the first time a four-year economic plan, with national economic objectives, had been developed and executed. Western Europe benefited from a clear and coherent economic strategy because of this precedent-breaking initiative.

The efforts of Secretary Marshall and President Truman culminated in the Economic Cooperation Act of 1948. Implementation of the Marshall Plan could not begin until Congress funded the economic

policy by passing this legislation. The Economic Cooperation Act had four congressionally mandated objectives: "(1) a strong [European] production effort, (2) expansion of foreign trade, (3) the creation and maintenance of internal financial stability, and (4) the development of (European) economic cooperation."<sup>11</sup> These goals were necessary for the restoration of a healthy and stable European economy. The first three objectives were short-term goals that economic strategists hoped to achieve in the ERP's four-year period. The fourth objective of economic cooperation was long-term goal that would ensure that Western European nations had viable free-market economies for years to come.

President Truman formed a new government agency to run the ERP. The Economic Cooperation Agency (ECA), established when the Act became law on 4 April 1948, was to concentrate on achieving the national security objectives of promoting economic prosperity and creating and maintaining political stability in Western Europe. Meanwhile, European leaders formed the Organization of European Economic Cooperation (OEEC) on 16 April 1948. This organization, operational by early May, was responsible for actually dividing the economic aid distributed by the ECA. Paul Hoffman, the ECA Administrator appointed by the President, enjoyed equal status with the permanent cabinet members. The ECA spent \$124 billion over a 45 month period from April 1948 through December 1951. This aid was mostly in the form of grants and low-interest loans. Even in this period, \$124 billion amounted to only 1.2 percent of U.S. Gross National Product (GNP).

The goal to increase the European production effort was very successful. Western Europe's GNP rose from \$119.6 billion in 1947 to \$159 billion in 1951, an increase of 32.5 percent. Additionally, during the ERP period, Western Europe's industrial and agricultural production indices increased more than 40 and 15 percent, respectively,

above their 1938 prewar levels. As a result, the Marshall Plan succeeded in increasing the level of European production before the economic aid program was officially terminated.<sup>12</sup>

The second economic objective of expanding foreign trade was also an unqualified success. By 1951, the volume of intra-European trade was 36 percent above its prewar level. Additionally, exports increased by 60 percent and imports were up over 30 percent.<sup>13</sup> However, internal financial stability was somewhat more difficult to establish in 45 months. Western Europe still had heavy loan payments to make and was experiencing inflation. Progress in lowering inflation between 1948 and 1949 disappeared in 1950 because of the requirements for Western Europe to increase defense spending. The invasion of South Korea, and the perceived increased threat to Europe, caused the West European nations to import high-cost raw materials in order to rearm. Western leaders believed that the conflict in Korea was just a sideline. They feared that Europe was the Soviet Union's ultimate objective and it had to be protected at all costs. Soviet Communism had to be contained.

The administration did not intend for the Marshall Plan to be a long-range development program. The originators drafted it to address the immediate economic problems of Western Europe and to provide financial resources to enable the aid recipients to begin long-term economic recovery. The lasting effect of the Marshall Plan is best observed by the success of the European Community in the 45 years since

the ERP formally dissolved. In this context, some may hail the Marshall Plan as one of the greatest economic achievements of the twentieth century. According to Robert A. Pollard:

The United States had achieved its main economic security goals in Europe by 1950: the reconstruction of Western Europe in an American-centered multilateral system, the alignment of Germany with the West, and the containment of Soviet power in Europe. Significantly, the Truman administration realized these objectives chiefly through the use of economic instruments, rather than military power. In securing its own interests in Europe, the United States helped rebuild Western Europe as a viable entity in world politics. That was no small achievement.<sup>14</sup>

When the North Koreans invaded South Korea in June 1950, the United States was forced to commit its conventional military power after allowing it to atrophy during the postwar years. This change in priorities had a profound effect on the accomplishment of its economic objectives. The ECA transformed from an efficient organization dealing with specific economic goals to a more diffused agency subordinated to accomplishing broader military and political objectives. In 1951, the administration merged the ECA into the Mutual Security Agency (MSA) and replaced almost all economic aid with military aid to contain Communism and provide for the military security of the allies. The objective of the Mutual Security Act of 1951 was to build up the military capabilities of those U.S. allies located along the perimeter of the Soviet Union and China. Before the Mutual Security Program of 1951, the ratio of foreign military to foreign economic aid was one to four. After dissolving the ECA, Congress appropriated military and economic aid at a ratio of four to one.<sup>15</sup> The nations considered to be on the front-line against communism received foreign aid and included South Korea, Taiwan, the Philippines, Thailand, Pakistan, Iran, Turkey, Greece, Vietnam, Cambodia, and Laos.

Critics argue that during the postwar years the United States was too preoccupied with accomplishing economic objectives and had not

adequately maintained its conventional military power. Overreliance on the atomic bomb as a deterrent against Communist aggression and the desire for a postwar "peace dividend" resulted in an extraordinary reduction in the U.S. Armed Forces from over ten million to just over one million men. The Korean Conflict showed how unprepared the nation was for conventional warfare and how ultimately unwilling U.S. leadership was to use its atomic arsenal in Northwest Asia.

The priority of the era was still containment of Communism in Western Europe. President Truman and his Secretary of State proved to be visionaries while implementing economic strategy for the reconstruction of Western Europe. Unfortunately, they allowed the nation's conventional military forces to wither instead of ensuring they employed all instruments of national power in a synchronous national security strategy:

The situation might have been different if the pendulum had not swung so far, if the bearing of economic strength and growth upon military and political strength had been seen more clearly, and diplomatic, economic and military aims had been regarded as coordinate, each indispensable to the health and security of the United States and the Free World.<sup>16</sup>

The United States had an impressive national economic strategy to accomplish those economic objectives critical to its national security. However, its national military strategy lacked a similar vision for the country's use of military means to pursue its strategic ends.

President Truman and George C. Marshall conceived of a multilateral trading system, new world economic institutions, and large amounts of U.S. foreign aid directed at and consistent with the national security objectives of the United States. They provided a model of how policymakers should translate national objectives into economic objectives. They also assigned a single authoritative agency with the resources and responsibilities to develop and implement the

details of the strategy. This agency directed a coordinated strategy to ensure that the economic instrument of power used to achieve national security objectives was feasible, suitable, and acceptable. It took months to formulate the original draft of the Marshall Plan. Every year, the OEEC and the ECA established new priorities and refined their economic objectives. As a result, the American and European implementing agencies had a clear, written framework with which to implement the cooperative economic strategy.

#### Japan Incorporated

Japan was once an aggressive military power that went to war to acquire the raw materials and scarce resources necessary for its survival. Today, this small island nation is an economic superpower that has achieved the same ends through economic means. As one of the defeated nations of the Second World War, Japan benefited greatly from the new economic order created and maintained by the United States through its postwar national economic strategy. Japan now has one of the world's most productive economies and maintains its national security through economic strength, not brute military force. The Japanese homeland provides a notable model to examine how effectively a national economic strategy can secure and advance national security objectives.

Japan's national interests throughout the postwar period included the promotion of economic growth and prosperity and ensuring its national security. Japanese policymakers accomplished these objectives by concentrating their national efforts on expanding foreign markets for Japanese exports while protecting Japanese industries from foreign competition. Because of the U.S. security umbrella, it was also able to minimize its defense expenditures.<sup>17</sup> Japan's economy

flourished and its political system stabilized by pursuing national economic interests and by procuring access to scarce resources and technologies. It was able to do this by relying primarily on the United States for its external military security.

The Liberal Democratic Party (LDP) has ruled Japan since 1955. As a result, the nation's underlying motivations and national goals have been consistent over the years. Although the government influences economic ends, elite institutions and not the National Diet actually formulate the nation's economic policies. The Ministry of International Trade and Industry (MITI) divides economic objectives into domestic and global economic strategies. MITI's authority to formulate and execute economic policy comes from legislation passed by the National Diet. As MITI specialist Chalmers Johnson writes:

The government's role in the economy, either before or after trade liberalization, has never been highly constrained by law. To be sure, the Japanese economic system rests on a legal foundation. . . . The actual details are left to the interpretation of bureaucrats so that the effects can be narrowly targeted. The power of administrative guidance greatly enhances the ability of Japanese economic officials to respond to new situations rapidly and with flexibility, and it gives them sufficient scope to take initiative.<sup>16</sup>

Between 1955 and 1974, MITI focused Japan's economic policies on export-oriented growth. Economic policymakers used industrial policies to improve the domestic infrastructure and international competitiveness of targeted Japanese industries. Additionally, the government controlled the access of Japanese firms to foreign technology and raw materials. It imposed strict limits on the importation of finished goods and encouraged the importation of raw materials and machinery. MITI provided financial assistance, in the



form of low-interest loans and tax incentives, to designated industrial firms to make them more competitive and to develop Japan's industrial base.<sup>19</sup>

Since 1974, the purpose of Japanese economic strategy has been for policymakers to concentrate on overseas investment and the internationalization of domestic industries. On November 1, 1974, MITI proposed the first "long-term vision" of Japan's domestic industrial structure.<sup>20</sup> Japanese leaders were able to adapt foreign and domestic economic strategies to the changes in the international economic environment. The combination of these economic policies was instrumental in improving macroeconomic conditions in Japan. Japanese trade policies have also become more liberal than in the postwar years. Japanese firms now invest in international markets and export goods to all the major regions of the world.

In comparing the differences between the United States' and Japan's political and economic systems, Samuel Kernall writes:

Japan's economic policies exhibit greater *coherence* and capacity for long-term *planning* [emphasis added]. Even if its role is largely that of a broker, MITI has greater influence over private investment and trade policies than does the assortment of U.S. institutions that occupy this policy domain. The closest the United States comes to such an enterprise . . . is in the procurement policies of the Pentagon.<sup>21</sup>

MITI's process of economic strategy formulation is the engine that propels the Japanese economy. MITI officials consult with a senior advisory board called the Industrial Structure Council (ISC). The ISC, consisting of captains of industry, provides MITI with input about the concerns of the various Japanese industries. Additionally, the Economic Planning Agency (EPA), a cabinet-level organization, provides long-term economic vision for MITI to incorporate into its economic strategy.<sup>22</sup>

Based on the input from the ISC and the EPA, MITI develops five-year strategic economic plans. These written products typically provide guidelines on how best to distribute and orchestrate the factors of production in order to achieve economic objectives in targeted industries. According to Dr. Thomas M. Huber, historian and Japan specialist:

In practice the five-year plans are in the nature of an overarching policy framework and are constantly scrutinized, sometimes undergoing major revisions before their term. Thus a given plan may not last for five years. Moreover, in accordance with the economic plans' prescriptions, each bureau in MITI generates specific medium-term plans, called "elevation plans." This is done in close consultation with several constituencies, including officials of the corporations that will ultimately have to implement them. These plans indicate amounts to be spent for research and development, proportion of production to be exported, and much more.<sup>23</sup>

The five-year plans are consistent with the proposed idea of a national economic strategy document that needs to be continually revised, updated, and implemented in order to accomplish national economic objectives. The Japanese plans often tend to have specific aims because Japan's global responsibilities have, in the past, been very limited. One strategic economic plan, called the National Income Doubling Plan of 1960, accomplished its objective of doubling Japan's Gross Domestic Product (GDP) in seven years.

A detailed discussion of the process by which MITI interacts with the private and public sectors to formulate and implement Japanese national economic strategy goes beyond the scope of this thesis. However, MITI has three distinct methods of implementing economic policy. First, it provides direct policy instruction to industrial task groups and cartels regarding strategic objectives by industry. Second, through the Ministry of Finance (MOF), MITI coordinates the flow of financial capital as the banking system funnels household savings to priority industries in order to facilitate growth. Finally,

MITI orchestrates the flow of certain raw materials and finished goods by influencing prices and utilizing "public policy" companies (PPCs) to act as monopolies in each industry.<sup>24</sup>

Clearly Japan's pursuit of its basic economic objectives has been very successful. Through their ability to concentrate on economic development while minimizing military efforts, the Japanese have been able to build a prosperous, advanced society while avoiding military conflict.<sup>25</sup> In MITI, Japan has an organization with the ability, experience and credibility to formulate and influence the execution of international and domestic economic strategies (see figure 2).

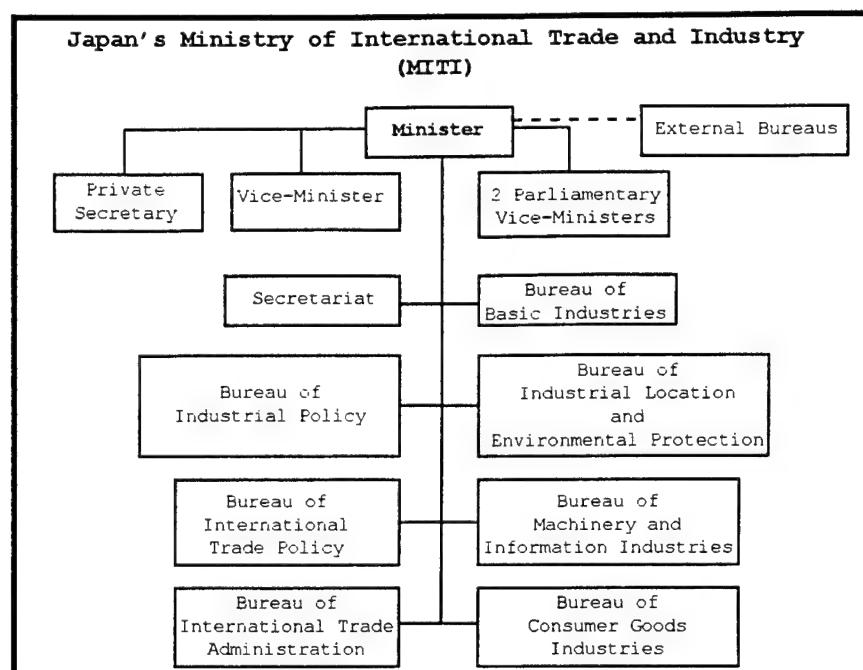


Figure 2. Organization of MITI.

Some may argue that the United States, having more global responsibilities and many diverse national objectives, could never

again focus its national efforts on an economic strategy necessary to equal the success of Japan. In the words of Norman D. Levin:

All nations have multiple objectives. The task of strategy is to prioritize these objectives and integrate them in a coherent set of policies. A successful strategy will keep the objectives in balance with both available resources and the environmental conditions that affect the ability of the state to achieve its objectives.<sup>26</sup>

The purpose of studying the Marshall Plan and "Japan, Incorporated" is to extract the lessons learned from these very successful models. One lesson is that the United States need not subordinate all other instruments of power to an economic strategy and allow diplomacy and the military to wither and die. However, the international security environment is changing and both the United States and Japan must continue to cope with these changes. Japan's overreliance on foreign oil and the relative decline of U.S. military power may require it to share more of the burden of its own defense and take on a world leadership role to contribute to international economic stability. The United States can no longer rely solely on its dominant military power to provide global leadership.

Another lesson learned from studying the Marshall Plan and Japan strategic economy is that the economic instrument of power can be used to achieve national security objectives when an organization is empowered by the government to formulate and implement economic strategy. The product resulting from the formulation of strategy should be coherent and well integrated to protect and advance the country's national interests. U.S. policymakers need to internalize these models of employing national economic strategy in order for the United States to be able to lead the world into the 21st Century.

Given the current global economic conditions, these successful examples of well-documented economic strategies validate the need for a written NES document.

### Endnotes

<sup>1</sup>Anne O. Krueger, Economic Policies at Cross-Purposes (Washington, DC: The Brookings Institution, 1993), 7.

<sup>2</sup>As quoted by Robert A. Pollard, Economic Security and the Origins of the Cold War, 1945-1950 (New York: Columbia University Press, 1985), 13.

<sup>3</sup>Ibid., 253.

<sup>4</sup>Ibid., 74.

<sup>5</sup>Barton J. Bernstein and Allen J. Matusow, ed. The Truman Administration: A Documentary History (New York: Harper & Row, Publishers, 1966), 251-252.

<sup>6</sup>Ibid., 255.

<sup>7</sup>Pollard, 134.

<sup>8</sup>Mark Herander, "International Trade Relations, Trade Policy, and National Security: The Role of Economic Analysis," Economics and National Security, ed. Jim Leitzel, (Boulder: Westview Press, 1993), 96.

<sup>9</sup>As quoted by Charles L. Mee, Jr., in The Marshall Plan (New York: Simon and Schuster, 1984), 272.

<sup>10</sup>Harry Bayard Price, The Marshall Plan and Its Meaning (Ithaca: Cornell University Press, 1955), 408.

<sup>11</sup>Imanuel Wexler, The Marshall Plan Revisited (Westport: Greenwood Press, 1983), 5.

<sup>12</sup>Ibid., 250-52.

<sup>13</sup>Ibid., 253.

<sup>14</sup>Pollard, 167.

<sup>15</sup>Robert A. Pastor, Congress and the Politics of U.S. Foreign Economic Policy 1929-1976 (Los Angeles: University of California Press, 1980), 266.

<sup>16</sup>Price, 226.

<sup>17</sup>Norman D. Levin, "The Search For Security," in Japan's Foreign Policy After the Cold War, ed. Gerald L. Curtis, (New York: M.E. Sharpe, Inc., 1993), 203.

<sup>18</sup>Chalmers Johnson, MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975 (Stanford: Stanford University Press, 1982), 273.

<sup>19</sup>T.J. Pempel, "From Exporter to Investor: Japanese Foreign Economic Policy," Japan's Foreign Policy After the Cold War, ed. Gerald L. Curtis, (New York: M.E. Sharpe, Inc., 1993), 107-110.

<sup>20</sup>Johnson, 301.

<sup>21</sup>Samuel Kernall, Parallel Politics: Economic Policymaking in the United States and Japan (Washington, DC: The Brookings Institution, 1991), 326.

<sup>22</sup>Thomas M. Huber, Strategic Economy in Japan (Boulder: Westview Press, 1994), 5-6.

<sup>23</sup>Ibid., 6.

<sup>24</sup>Ibid., 10-17.

<sup>25</sup>Levin, 214.

<sup>26</sup>Ibid., 202.

## CHAPTER 6

### ASSESSING NATIONAL MILITARY STRATEGY DEVELOPMENT

To assess the development of national military strategy, this chapter analyzes how the national military strategy process results in a coherent and useful NMS document that adequately meets the security challenges described by the NSS. It also examines the suitability, integrity, and credibility of the purpose, process, and products of military strategy formulation. This methodology should answer the question of whether or not a broadly parallel process of formulating national economic strategy could result in an equally credible and useful NES document.

The purpose of formulating national military strategy is to provide the President, the National Security Council, and the Secretary of Defense with the recommended force structure and military strategy necessary to pursue national security objectives. The Chairman, Joint Chiefs of Staff (CJCS), in consultation with the Service Chiefs and the CINCs, is the senior official charged with this responsibility.<sup>1</sup> In this role, the Chairman is charged to assist the National Command Authorities (NCA)--the President and Secretary of Defense (SECDEF)--by providing strategic direction for the Armed Forces and advice regarding the best use of the military instrument of power.

One of the most important changes affecting how the military conducts military strategy development and assessment is the Goldwater-Nichols DOD Reorganization Act of 1986. This law increased the importance of the Chairman's duties and specified his role in strategy



development. Under the Act, the Chairman became the principal military advisor to the President, the NSC, and the Secretary of Defense. Previously he had shared this title with the other members of the Joint Chiefs of Staff (JCS).<sup>2</sup> This law also gave the Chairman the authority to develop strategic plans and budget proposals. Formerly, the Service Chiefs wrote their own plans and budgets. Goldwater-Nichols legislation established an environment in which the Chairman could direct the development of military strategy based on NSS objectives.

Although Congress requires the publication of an annual NSS document in accordance with the 1986 Goldwater-Nichols Act, the National Military Strategy document is not congressionally mandated. The first NMS document, which appeared in both an unclassified and classified form, was provided by General Colin Powell when he was Chairman of the Joint Chiefs. The National Military Strategy--which is now developed only in an unclassified version--guides the development of the classified Joint Strategic Capabilities Plan (JSCP), which begins the translation of the NMS into operational plans.

The formal process by which the Chairman and the CINCs implement their statutory responsibilities of strategy development and strategic assessment is the Joint Strategy Planning System (JSPS). The JSPS provides a process for the Chairman, the JCS, and the CINCs to review the global security environment and current national security objectives and to evaluate the effectiveness of existing military strategy, programs and budgets. This process enables the Joint Chiefs and the CINCs to re-assess the threats to U.S. national interests and to propose the military strategy, programs, and forces necessary to achieve national security objectives.<sup>3</sup>

At the core of the JSPS is the Joint Strategy Review (JSR). The JSR evaluates the global strategic environment for conditions that affect military strategy in both the near and long-term. The JSR is a process that:

Continuously gathers information; examines current, emerging and future issues, threats, technologies, organizations, doctrinal concepts, force structures, and military missions; and reviews and assesses current strategy, forces, and national policy objectives. The JSR facilitates the integration of strategy, operational planning, and program assessment.<sup>4</sup>

Based on the JSR, the Chairman provides his guidance and priorities for planning and force structure in the Chairman's Guidance (CG). This document and other specific conclusions of the JSR provide a framework and priorities for the NMS document. The JSPS produces three other products. They include the Joint Planning Document (JPD), the Joint Strategic Capabilities Plan, and the Chairman's Program Assessment (CPA). The JPD--often referred to as the "programming" version of the more philosophical NMS--supports military strategy by providing precise programming priorities, requirements, and recommendations to the SECDEF for consideration during preparation of the Defense Planning Guidance (DPG), the SECDEF's formal budgetary guidance to the Services. The JSCP provides direction to the CINCs and the Service Chiefs to accomplish specific missions based on current military capabilities. These missions include requirements for the CINCs to prepare operations plans for certain potential contingencies. The JSCP allocates resources--including forces--based on military capabilities resulting from completed program and budget actions. The CPA provides the SECDEF a summary of the Chairman's views of the capabilities of the programmed forces submitted in the Service budgets as well as the support levels required to attain U.S. national security objectives.<sup>5</sup>

The unclassified NMS provides general and broad guidance to the Services, CINCs, and Defense Agencies concerning the role of the U.S. Armed Forces in achieving national security objectives. It contains a brief review of the international environment, establishes major military objectives, determines broad strategic concepts and components, and provides the fundamental military capabilities to support the strategy (see figure 3). Both the American people and Congress have the opportunity to read, understand, and analyze the published document.

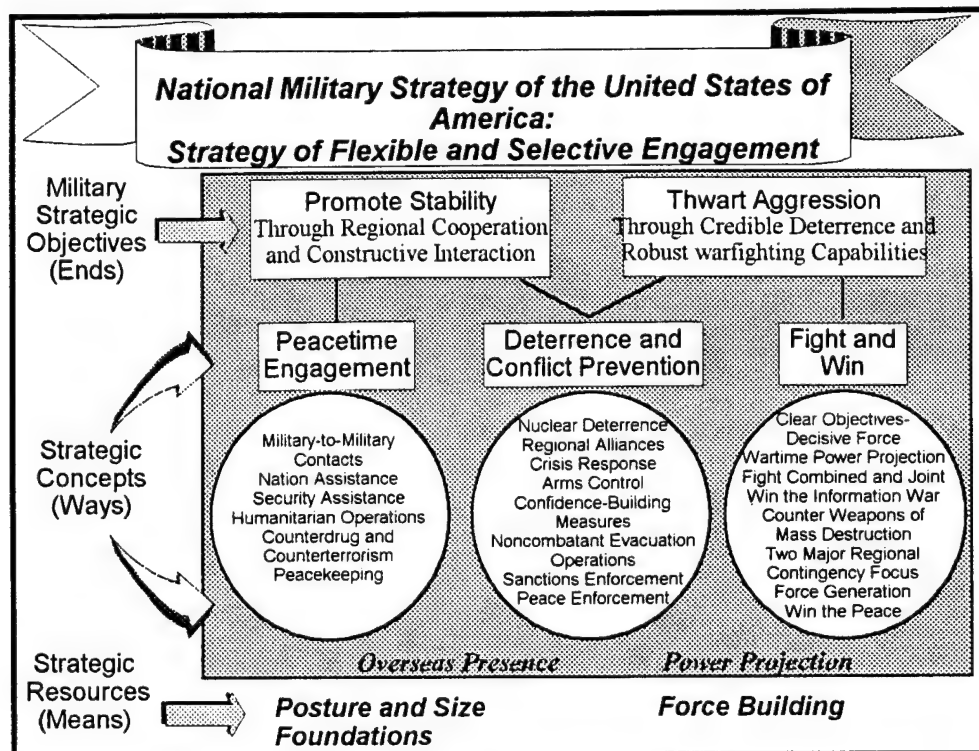


Figure 3. National Military Strategy ends, ways, and means. Modified illustration from National Military Strategy of the United States of America (Washington, DC: Government Printing Office, 1995), 4.

Using the completed NMS, the Joint Staff, in coordination with the CINCs, develops the JSCP that implements the military strategy

through approved planning guidance. It is the classified JSCP that actually provides specific taskings and force allocations to the CINCs. According to the 1995 NMS document:

This military strategy is one of flexible and selective engagement, designed to protect U.S. interests throughout the world and to help meet the security needs of our partners in key regions. This strategy requires a ready American military force capable of responding quickly and decisively to protect our Nation's security.<sup>6</sup>

One way to assess the NMS--the written, unclassified product of military strategy formulation--is based on the concept or definition of "strategy." In Arthur F. Lykke's words, "Strategy equals Ends (objectives towards which one strives) plus Ways (courses of action) plus Means (instruments by which some end can be achieved)."<sup>7</sup> For military strategy, he develops the equation: "Military Strategy equals Military Objectives plus Strategic Concepts plus Military Resources."<sup>8</sup> In this case, the military objectives are the desired "ends", strategic concepts are "ways" or courses of action, and military resources are the "means." Of course, formulating strategy is not an exact science. The role of the military strategist is to determine, integrate, and balance the ends, ways, and means in a strategy that will effectively achieve the military-related goals of the NSS and counter the threats to U.S. national interests. Forging military strategy in this decade and beyond is an exceptionally dynamic process because the global security environment is in such a state of transition. Lykke believes that if the ends, ways, and means are not compatible or are not effectively balanced, national security is endangered.<sup>9</sup>

One of the major challenges for military leaders in strategy development, is to identify clear, attainable objectives that conform to a resource-restricted environment. According to the 1995 NMS, the nation's principal military objectives are to "promote stability" and

"thwart aggression."<sup>10</sup> These are goals that the Chairman and the JCS have identified to support the NSS goals of engagement and enlargement of free market democracies. The "ways" in which these goals are pursued are through the two principal strategic concepts of "power projection" and "overseas presence" (see figure 3). The strategic concepts facilitate and support the three components or policies of military strategy: "peacetime engagement, deterrence and conflict prevention, and fighting and winning our Nation's wars."<sup>11</sup> These strategic objectives and concepts differ from the Cold War's strategic concepts of "containment" and "forward deployed defense."

The "means" or resources described in the context of the current NMS are discussed under "Military Capabilities" and include a general reference to the size and posture of the Armed Forces. The NMS also mentions the Bottom-Up Review (BUR) end-strength of 1,445,000 uniformed service members by the end of 1999. It broadly describes the overall military drawdown in terms of decreasing Army divisions, Air Force wings, and Navy ships. Although this information is not very specific by branch of service, it does provide the general state of the U.S. Armed Forces. The key capabilities discussed in the NMS are a well-manned, well-equipped, well-trained, and sustainable force that is flexible enough to project its power to implement the goals of the NMS as rapidly as required.<sup>12</sup>

Determining how well the NMS provides direction to the Service Chiefs and the CINCs is beyond the scope of the paper. However, the JSCP, a principal product of the JSPS process that is driven by the NMS, provides forces and missions on which the CINCs can base their operational plans for contingencies in their respective areas of responsibility. The JSCP effectively "operationalizes" the NMS for the warfighting commanders. The NSS document itself only identifies broad

national security objectives. Since there is no longer a monolithic threat to U.S. national interests, the CINCs must plan for and integrate multiple capabilities to confront the many dangers of the strategic environment. Only a crisis can reveal how well conceived the CINCs' operational plans are. Despite the difficulties in assessing the true effectiveness of the NMS, it is possible to assess its broad positive and negative attributes in the formulation of military strategy.

According to Dr. David Jablonsky, Professor of National Security Affairs at the U.S. Army War College, the National Military Strategy of the United States, 1995:

Clearly underscores the need for a selective and flexible strategy in the calculation of the relationship between the means, the BUR [Bottom Up Review] force, and the ends, the thwarting of aggression and the promotion of stability. . . . The strategy also reflects the iterative interaction of the JCS with the NCA, a relationship reflected in the President's national security strategy and the Defense Secretary's annual report. Equally important, the document provides the Chairman a single, unclassified outlet to make his case for the controlled build-down of U.S. military forces in protecting and opportunistically extending the current transition.<sup>13</sup>

He argues that, in the current strategic environment, it is difficult to be more specific and less open-ended, especially when it comes to measuring the components of peacetime engagement in promoting stability. Fighting and winning wars to thwart aggression is a specific goal that operates in many environments. The current dangers to U.S. security come in many forms and magnitudes. Determining the ways and means to defeat these threats in the field still requires interpretation by the executors of military policy, the warfighting CINCs.

Dr. Jablonsky contends that the core national interests of the United States have remained unchanged since the beginning of the Cold War. Only the focus and strategies to achieve these national

objectives have varied. The core interests remain physical security, economic prosperity, and promotion of values.<sup>14</sup> The U.S. Military has always been focused on providing physical security. In today's global environment, it will continue to perform this mission within a balanced strategy to protect each of the core interests. However, in the wake of the Cold War, and with no single threat on which to focus, U.S. policymakers also require coherent strategies to pursue economic prosperity and promote U.S. values. The Military will play a supporting role in these areas while remaining the primary instrument of power to provide physical security. The need for strategy formulation for other instruments of national power also appears essential to focus the nation's resources on accomplishing economic security and promoting values.

Colonel Harry E. Rothmann, the former Chief of Strategy Applications Branch of the Joint Staff Strategy Division, describes the NMS in glowing terms:

It is a comprehensive strategy that seeks to integrate jointly all military capabilities and apply them to protect or promote strategic centers of gravity. The new military strategy also accounts for all forms of national power, considers the American strategic culture of decisive action and national commitment, and recognizes the unique U.S. geopolitical situation as a continental, maritime nation that has aerospace capabilities and the potential to exploit time and distance factors.<sup>15</sup>

Although Rothmann is not unbiased--he served in the department that developed the first NMS in 1992--he does provide an informed, first-hand look into the process and product of military strategy development. Rothmann clearly believes that the military strategy product provides the vision to guide strategic formulation and force planning focused on defined national interests, while ensuring that plans and forces are capable of protecting those interests.<sup>16</sup>

However, the document that provides the overall national military strategy does have its critics. In his U.S. Army War College monograph, Lieutenant Colonel Don Riley argues that the NMS does not sufficiently develop long-range planning and programming guidance. He recommends consolidating the NMS and the JSCP into a properly classified format in order for it to be a complete document that meets the needs of the entire Defense community, Congress, and the American people.<sup>17</sup>

Douglas C. Lovelace, Jr. and Thomas-Durell Young, professors at the U.S. Army War College's Strategic Study Institute, believe that:

The NMS does not provide adequate guidance for the development of specific objectives, let alone the methods for attaining them. By its very nature it is broad in scope and general in content, it is open to diverse interpretation.<sup>18</sup>

It is difficult to refute this statement. The NMS is very broad and lacks specific long-range guidance. However, the purpose of the NMS is to provide broad guidance for the implementation of military power. It cannot prescribe specific courses of action because each regional CINC faces different threats. The document is meant to convey the Chairman's strategic vision for how he sees the military accomplishing its objectives in the future. The desired endstate of the NMS is promoting stability and thwarting aggression in a fiscally constrained and complex environment. The JSCP, a product based on the NMS, provides the "adequate guidance" and "specific missions" for regional contingencies

The executors of this vision, the CINCs with regional responsibilities, translate NSS and NMS objectives and JSCP missions into operational plans. As Harry Rothmann says:

It [the NMS] is an effective blueprint for protecting and promoting our security objectives in an uncertain world against unknown threats. It is a result of the best calculations of ends and means that the Nation's military leaders can make.<sup>19</sup>



The purpose of the national military strategy is sound. The JSPS process may not be perfect, it may produce unintended consequences, and it probably could be improved. However, military strategy formulation is occurring and military strategists continue their attempts to balance ends, ways, and means to achieve national security strategy objectives. The NMS document may not provide the answers to all conceivable questions, but it is a well considered, written strategy that validates the purpose and process of military strategy formulation.

The key lesson of the NMS process for formulating strategy argues that the United States needs to gather its multitude of economic policymakers and get them thinking about how economic strategy could support the achievement of the national security objectives laid out by the NSS. The broad purposes of the NES, similar to the NMS, would be to support applicable NSS goals: economic security, prosperity, and free markets abroad. Currently, there is no formal process of developing and coordinating economic policies to achieve national objectives. Each government agency with an economic division has its own ideas and policies for applying the economic instrument of power in support of national goals. Moreover, these policies are not always compatible or mutually beneficial. They are rarely integrated. The best way to ensure that they are is to develop a process for economic policymakers by which they can formulate economic strategy and develop a clear, coherent, written national economic strategy document that "is a result of the best calculations" of ends, ways, and means that the Nation's economic experts can make. The fact that NMS development has at least stimulated the thought processes of military strategists and resulted in a coherent written framework, means that the nation stands to benefit from a similar process for formulating national economic

strategy. Given the future national security environment, a written national economic strategy may be essential for the protection of U.S. national interests.

# Endnotes

<sup>1</sup>The Joint Chiefs of Staff, Joint Publication 5-03.1 Joint Operation Planning and Execution System, Volume I, (Washington, DC: U.S. Government Printing Office, 4 August 1993), II-2.

<sup>2</sup>U.S. Congress, U.S. Public Law 99-433. Goldwater-Nichols Department of Defense Reorganization Act of 1986, Ch. 5, sec. 151, para. (b).

<sup>3</sup>Joint Publication 5-03.1, II-1.

<sup>4</sup>Ibid., II-2.

<sup>5</sup>Ibid., II-2, II-3.

<sup>6</sup>Chairman, Joint Chiefs of Staff, National Military Strategy of the United States of America (Washington, DC: Government Printing Office, 1995), 20.

<sup>7</sup>Arthur F. Lykke, "Toward an Understanding of Military Strategy," Military Strategy: Theory and Application, ed. Arthur F. Lykke (Carlisle Barracks, PA: U.S. Army War College, 12 March 1993), 3.

<sup>8</sup>Ibid., 4.

<sup>9</sup>Ibid., 5.

<sup>10</sup>National Military Strategy, 4.

<sup>11</sup>Ibid., i.

<sup>12</sup>Ibid., 18.

<sup>13</sup>David Jablonsky, Times Cycle and National Military Strategy: The Case for Continuity in Time of Change (Carlisle Barracks, PA: U.S. Army War College, 1 June 1995), 60-61.

<sup>14</sup>Ibid., 7.

<sup>15</sup>Harry E. Rothmann, Forging a New National Military Strategy in a Post-Cold War World: A Perspective From the Joint Staff (Carlisle Barracks, PA: U.S. Army War College, 26 February 1992), 9.

<sup>16</sup>Ibid., 14.

<sup>17</sup>Don T. Riley, A National Military Strategy Process for the Future (Carlisle Barracks, PA: U.S. Army War College, 18 April 1994), 24.

<sup>18</sup>Douglas C. Lovelace, Jr., and Thomas-Durell Young, Strategic Plans, Joint Doctrine, and Antipodean Insights (Carlisle Barracks, PA: U.S. Army War College, 20 October 1995), 13.

<sup>19</sup>Rothmann, 16.

## CHAPTER 7

### ECONOMIC ENDS, WAYS, AND MEANS

In order to determine the efficacy of a written national economic strategy, it is important to analyze how this strategy would support and sustain the National Security Strategy. The instruments of national power become the means for achieving security objectives. Economic power is often used to directly influence states and other international actors.<sup>3</sup> Because of the changing security environment and increasing interdependence of global economies, there are some worrisome trends in the global economy that could threaten world harmony and U.S. national interests. Economic interdependence and cooperation play a more prominent role in the pursuit of U.S. national interests because "the world is increasingly one in which all nations are forced to rely upon one another for a variety of goods and services."<sup>1</sup> According to Colonel James R. Golden, Professor and Head of the Department of Social Sciences, U.S. Military Academy:

In the emerging environment, the threats to national security are real, but they are more diffuse and less likely to provide a clear focus for standing alliances or to justify the subordination of economic issues to security concerns. Instead, national strategy will have to balance economic and security interests and support approaches that develop international consensus: cooperation will be essential in providing institutions that promote international economic stability and effective crisis management.<sup>2</sup>

However, Golden argues that casting economic policy in a national security framework could actually be harmful. He fears that because economic policy is not usually formulated by the actors in the national

security system, any ties between national security and economic policy may actually result in emphasis on the wrong economic objectives. He writes:

By focusing on the narrow range of economic policy issues that are influenced by security strategy, the system de-emphasizes such key issues as productivity and competitiveness that are handled in other agencies. Moreover, by stressing threats to national interests in the international arena, an emphasis on economic security could incorrectly stress coercion against economic competitors rather than domestic policies to enhance competitiveness.<sup>3</sup>

It is true that unity of effort among the economic policy implementing agencies is lacking or nonexistent. Moreover, whatever "strategy" may exist is not coordinated with strategies of the other instruments of power. Although it goes beyond the scope of this thesis, the need for U.S. economic agency reorganization is discussed in Chapter 8. U.S. economic security does serve the interests of the rest of the world. The health of the world's largest economy is crucial to the health of national economies worldwide. The implementation of a domestic economic plan should be an integral component of U.S. economic strategy that provides economic prosperity and economic security to the United States and its interests abroad. The nation's economic health is a key component in achieving national security.

From Arthur F. Lykke's equation for strategy one can deduce that economic strategy equals economic ends plus economic ways plus economic means. Economic "ends" are objectives translated from the NSS and include promoting prosperity at home and enhancing U.S. economic security. The pursuit of these ends will also promote democracy abroad. The "ways" are different economic strategies, policies or courses of action to achieve these objectives. The economic "means" comes from economic sources of power that are derived from the strength

and stability of the domestic economy. This triad of economic strategy components should be well integrated in order to accomplish national security objectives.

#### Economic Ends

One of the primary objectives of President Clinton's National Security Strategy is to promote prosperity at home. This objective can be achieved by "a vigorous and integrated economic policy designed to stimulate global environmentally sound economic growth and free trade and to press for open and equal U.S. access to foreign markets."<sup>4</sup> Domestic economic prosperity is usually defined as economic growth (increasing Gross Domestic Product), low unemployment, low inflation, high investment, and high productivity. The prosperity of the nation's economy depends on its ability to access foreign markets, to protect domestic producers from unfair trade practices and to invite foreign capital investment. How the United States uses economic resources to achieve these national and international economic objectives should be the cornerstone of its national economic strategy.

Another NSS objective is to enhance U.S. security. The military has the primary responsibility of providing for the physical security of the United States and its interests abroad. However, economic instruments may be used to complement the missions of the Armed Forces. One economic objective that can be inferred is the requirement for economic security. Economic security is defined as the ability of a nation to protect economic prosperity and influence the international economic environment to enhance national economic interests.<sup>5</sup> The national security strategy objective of enhancing U.S. security is directly related to the enhancement of economic security. There is an obvious linkage between economic security and military

strength. A strong and prosperous economy is required for the development and maintenance of a military force with the equipment capable of deterring and defeating military aggression around the world. The military is employed to protect and advance U.S. national interests abroad. These interests include raw materials, scarce resources, and vital sources of energy. Economic policies play a crucial role in the management and distribution of scarce resources. Therefore, economic and security interests continue to become increasingly inseparable. However, should the economy suffer a severe depression or long recession, the pressure to reduce the military even further may deflate U.S. national power. A coherent national economic strategy that pursues domestic economic strength and stability also provides the country the means for potent military strength.

The United States' example of having the most robust, stable, and prosperous economy in the world accomplishes the final NSS objective of promoting democracy abroad. By encouraging other countries to open their markets and engage in mutually beneficial trade, the U.S. can communicate to the world the benefits of the democratic system. The U.S. needs to encourage further development of market forces for political and economic reasons. Freer international trade provides beneficial gains to all trading partners. It also tends to increase the diplomatic dialogue between former East and West Bloc countries. The world has witnessed this since the Berlin Wall came down in 1989.

Richard Rosecrance argues that if the world economy were more open and prosperous in the late 1930s, Germany and Japan would not have

needed to use aggressive means to pursue improved economic conditions.<sup>6</sup> He believes the United States has two fundamental national economic interests:

1. To create an open world economy.
2. To create a prosperous world economy.<sup>7</sup>

Rosecrance is certain that if both these objectives are gained, the likelihood of war declines. "This is because economic means can achieve . . . what might otherwise be sought militarily--the control of markets, resources, technology, and capital."<sup>8</sup> He feels that nations have come to realize that land, resources, and fixed capital are no longer objects of national aggression. In today's security environment, seized land that contains a hostile populace is a liability to the conquering nation. Fixed capital is useless if it is destroyed in a conventional or nuclear conflict. Japan's lack of oil does not prevent it from being an economic power because oil continues to be available on the open market. Rosecrance claims that war has lost its efficiency as a means of attaining economic goals and peace has become much more effective. He writes:

A key policy of the United States in the years to come must be to grease the mechanism of trade and capital flows. The most important economic assets cannot be seized; they can only be acquired through patient and persuasive inducement.<sup>9</sup>

Therefore, an important strategic objective is to maintain a favorable domestic economy, toward which both foreign and domestic financial capital, technology, and skilled workers will gravitate. If this occurs, the U.S. economy will have sufficient investment and a wide variety of exports to improve productivity and economic growth. The United States must continue to encourage cooperation in the global economy.

However, as other nations' economies grow, and larger market economies with the potential of China and the European Union emerge,



the relative strength of the U.S. economy will be smaller and may wield less influence in the world's economy. In the final analysis, it is up to economic strategists to determine the exact economic ends that provide for the accomplishment of national strategic objectives. Once the objectives are identified, it is then necessary to develop and employ strategic economic concepts to achieve these objectives. These concepts are the ways in which economic means are implemented.

#### Economic Ways

Economic concepts or courses of action are necessarily broad in nature. There are many ways in which economic means can be utilized to achieve national economic objectives. The best methods of implementation are left for economic strategists and policy-makers. The United States can achieve its economic goals by pursuing the following strategic economic concepts: stabilization of the world economy; enhanced competition; liberalized trade; a strengthened private sector; increased labor productivity; and world participation in the economic development of poorer nations.

World economic stability is maintained by increased access to foreign markets and by creating a credible global financial environment. The World Trade Organization (WTO), created on 15 April 1994, when 124 countries signed the Uruguay Round accord in Marrakesh, Morocco, represents the best means to advance more open international markets. Officially established on 1 January 1995, the WTO has the power to settle trade disputes between nations. This should limit the unfair trade practices of all countries and result in increased global exports. The global financial environment can be made more credible by liberalizing membership to the International Monetary Fund (IMF) and the World Bank. These international financial organizations also need

increased industrialized nation support to distribute foreign capital to poorer nations for investment in long-term economic development and infrastructure revitalization.

Competition should be enhanced across the international spectrum. The rules governing corporations with respect to government subsidies, laws, incentives and other regulations that effect competition should be internationalized to create a true level playing field.<sup>10</sup> Subsidies reduce the effects of market forces and encourage the misallocation of resources that the free market forces are supposed to remedy.<sup>11</sup> Additionally, government regulations and corrupt behavior strangle competition and interfere with international investment flows.<sup>12</sup> Nations need to enforce the WTO's power to eliminate barriers to trade of non-national security relevant goods and services. Governments should also pursue the gradual elimination of complex protectionist policies that prevent the free movement of goods, services and vital resources.<sup>13</sup> Efforts to lower barriers to the free flow of goods and services, financial capital, and technologies will improve growth and improve the living standards of Americans.

Any action that fosters trade liberalization and generates more gains from trade enhances national security. A nation's security increases as its interdependence with the rest of the world increases. The opportunity costs of disrupting trade between nations are too high. This makes it less likely that any single nation will undertake action to threaten its potential gains from trade. Nations are far more likely to liberalize trade when the perceived gains are greater.<sup>14</sup> Traditional trade barriers such as tariffs and quotas must be reduced in order to facilitate enhanced competition, increased access to markets, and freer trade.

Nations will continue to use trade policies to try to elevate their positions of power in the world community, to change another nation's behavior, or to achieve long-term national security objectives. Economic sanctions currently work best against small, economically dependent states to achieve economic leverage or to reduce the economic capabilities of a country. The sanctions must be comprehensive, have multilateral support and be strictly enforced. One problem with economic sanctions is that authoritarian states that are not influenced by their internal business communities are less likely to be influenced by economic sanctions. As states continue to become economically interdependent, sanctions may play a bigger role in protecting and advancing the national interests of the United States. Economic leverage can be used for four distinct purposes: coercion, to extract monopoly profit from market control, to directly impact another state's economic security, welfare, and capabilities, and to gain a position of influence over another country.<sup>15</sup> However, economic leverage may become obsolete as the global economy becomes more cooperative.

The United States views the private sector as the vital cog in the engine of economic growth. As governments act to level the playing field in the world markets, they should also provide incentives for increased private capital investment. The growth in corporate profits is very dependent on the ability of U.S. firms to access foreign markets. The biggest, most stable, and profitable companies are multinational corporations that have taken risks to enter the world marketplace and have built factories or provided services in foreign countries. The liberalization of capital markets will equalize the cost of capital across borders and increase the level of investment

expenditure on plants and equipment. The government should minimize corporate taxes and enforce antimonopoly laws to allow the private sector to become more competitive.

Instead of taxing corporations, companies can be required to further train and educate their work force to increase the productivity of labor. Theodore Moran advocates using the increasingly available vocational courses in community colleges and private institutes as a means for enhancing the productivity of workers. However, he does not discount the need for long-term U.S. public education reform.<sup>16</sup> Public and private employers have the burden of providing quality training for new technologies and their required supervision. Laborers will continue to become more productive as new technological processes and techniques permeate the workplace. The investment in human capital is just as important as the investment in capital equipment.

Economic strategy that ignores the importance of restoring Third World growth and stability will cause problems in the long-term. The industrialized nations should continue to provide financial investment to poorer countries to enhance their economic development. This is accomplished by making financial capital available to permit these countries to launch an ultimately self-sustaining process of economic development. The United States can no longer afford to finance the economic development of lesser developed nations by itself. International cooperation and reciprocity are key to the strategic concept of developing the Third World. The United States can assist underdeveloped countries to overcome other obstacles to their own development. Technical assistance and education programs will help stimulate self-development. With earnest cooperation, the global

community can create a climate of international economic activity in which the economies of the industrialized nations should continue to grow.<sup>17</sup>

#### Economic Means

The means to implement these strategic concepts stem from the strength and credibility of the U.S. economy. Certain domestic issues must be addressed in order for the United States to continue to have the means to implement the economic instrument of power. With the current security environment, the first responses to national security threats tend to be the implementation of the economic instrument of power. U.S. economic security depends on the nation's ability to shape the international economy by using economic means to influence the policies of other countries. The goal of improved economic prosperity is always the idealistic end for any form of economic security policy or strategy. However, economic security includes the reduction or elimination of the uncertainty about continued economic prosperity. This is why it is important to have a vision for the future of the domestic and international economy and America's ability to influence the global economy.

Economic strategists must implement changes in the domestic economy to encourage investment, increase national savings, reduce consumption, and eliminate the budget deficit. The reduction of the budget deficit is important to help restore the balance between national savings and consumption. Once the deficit is eradicated, more financial capital can be invested in education to improve productivity. Additionally, the improvement of U.S. transportation and informational

infrastructures will increase productivity and lead to economic growth, lower interest rates, and improved competitiveness of corporate America.

Graham Allison supports this contention by arguing that America should try and become the world's largest and most productive economy over the next 50 years. In order to do this, he believes the U.S. must eliminate the budget and trade deficits. Allison states that, "The long-term health of the U.S. economic base depends primarily on what we do at home."<sup>18</sup> He feels that eliminating the budget deficit is the easiest domestic economic objective. The U.S. must commit itself to deficit reduction or face major constraints on domestic policy options, as well as future low productivity, reduced standards of living, and the ultimate session of economic preeminence to foreign rivals.<sup>19</sup> It only takes an increase in taxes and reduced government spending. He also believes that the United States needs to increase its national savings rate and productivity. These tasks are much more difficult to accomplish because they entail changing American spending and leisure habits.

America can encourage new investment by increasing savings and reducing consumption. This leads to more dollars in financial institutions to loan out for investment expenditures. Lower interest rates and corporate tax incentives will also foster increased investment. Tax incentives can be in the form of corporate rewards or rebates for long-term capital investment. Also the reduction of the tax on long-term capital gains will create an incentive for people and companies to invest and save more and consume less.

Theodore Moran correctly argues that the challenge for American policymakers has been made more difficult by the end of the Cold War. The means of economic strategy can be maintained by creating investment

incentives, rewarding savings, constraining consumption, and eliminating the budget deficit. However, Moran feels that without a monolithic threat, there are too many short-term temptations that will prevent U.S. leaders from implementing long-term remedies. "In the absence of clear and present dangers, there appears to be less need for uncomfortable solutions that require discipline, sacrifice and concerted purpose."<sup>20</sup> The "concerted purpose" needs to be a coherent U.S. national economic strategy that integrates domestic policy issues to allow the U.S. economy to prosper and provides the means for economic policymakers to implement the ways of achieving national economic ends. A written national economic strategy document that outlines the President's vision for economic ends, ways, and means can provide the framework to guide economic strategists in their pursuit of employing economic power to achieve national security objectives.

# Endnotes

<sup>1</sup>Donald M. Snow, National Security: Enduring Problems in a Changing Defense Environment (New York: St. Martin's Press, 1991), 13.

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<sup>3</sup>Ibid., 7.

<sup>4</sup>A National Security Strategy of Engagement and Enlargement (Washington, DC: The White House, February 1995), 7.

<sup>5</sup>C. R. Neu and Charles Wolf, Jr., The Economic Dimensions of National Security (Washington, DC: The Rand Corporation, 1994), xi-xii.

<sup>6</sup>Richard Rosecrance, "Post-Cold War U.S. National Interests and Priorities," in Turning Point: The Gulf War and U.S. Military Strategy, ed. Benjamin Ederington and Michael J. Murphy (Boulder: Westview Press, Inc., 1994), 26.

<sup>7</sup>Ibid., 25.

<sup>8</sup>Ibid.

<sup>9</sup>Ibid., 30.

<sup>10</sup>Ruth Karen, Toward the Year 2000 (New York: William Morrow and Company, Inc., 1985), 24.

<sup>11</sup>Charles Wolf, Jr., The Rise of Market Forces (Santa Monica, CA: The Rand Corporation, 1988), 12.

<sup>12</sup>Jeffrey E. Garten, "Is America Abandoning Multilateral Trade?" Foreign Affairs (November/December 1995): 53.

<sup>13</sup>Karen, 25.

<sup>14</sup>Mark Herander, "International Trade Relation, Trade Policy, and National Security: The Role of Economic Analysis," Economic and National Security, ed. Jim Leitzel (Boulder: Westview Press, Inc., 1993), 91-92.

<sup>15</sup>Klaus Knorr, The Power of Nations (New York: Basic Books, Inc., 1993), 99-100.

<sup>16</sup>Theodore Moran, American Economic Policy and National Security (New York: Council on Foreign Relations Press, 1993), 21.

<sup>17</sup>Max F. Millikan and W. W. Rostow, A Proposal: Key to an Effective Foreign Policy (New York: Harper & Brothers, 1957), 55-56.

<sup>18</sup>Graham Allison, "National Security Strategy for the 1990's," America's Global Interests: A New Agenda, ed. Edward K. Hamilton (New York: W. W. Norton & Company, 1989), 219.



<sup>19</sup>Walter J. Hosey, "Economic, National Policy, and Military Strategy: The Growing Linkage in the 1990s," Naval War College Review 46 (Spring 1993): 21.

<sup>20</sup>Moran, 71.

## CHAPTER 8

### CONCLUSION AND RECOMMENDATIONS

This thesis has attempted to examine why the United States needs a written national economic strategy document. The current and future security environment is such that relative U.S. military power is in decline and economic strength is emerging as the primary instrument of power worldwide. The United States has shown the ability to harness its resources and create a government agency responsible for formulating, writing, and implementing economic strategy as it pertained to the recovery of Western Europe in the post-World War II period. Japan, with its Ministry of International Trade and Industry, has a coherent economic framework that has guided that small island nation to its current position as a global economic power. The United States Military has in place a strategy formulation and review system that results in several written documents. Specifically, the NMS and the JSCP provide direction for military leaders to implement national military strategy to support and sustain national security strategy. There currently exists a great opportunity for U.S. leadership to establish a system of formulating and documenting coherent economic strategy. There may be no better time during this period of transition between the end of the Cold War and some "new world order" to provide proactive written guidance for economic strategists within the government.

Some analysts do not believe the United States is forward-looking enough to make modifications of this magnitude. Paul Kennedy, the nation's leading declinist writes:

The Nature of American society and politics makes it unlikely that a national "plan" for the twenty-first century will emerge such as may be formulated in France or Japan. Instead there will be differentiated responses and local initiatives, in the traditional American way: states and school districts will push ahead with their individual schemes; communities will grapple with local environmental problems; towns and cities will attack urban poverty in various ways; some regions will benefit from fresh foreign investment, others will suffer as American companies transfer production overseas; in the business world especially, "preparing for the twenty-first century" will be seen as a matter of individual company strategy not the result of a plan conceived by Washington.<sup>1</sup>

Kennedy also argues that there can be no coherent response without a "shock" or crash. The United States will continue to "muddle through" until it is forced to make a change.<sup>2</sup> Instead of mortgaging the future, the Administration needs to mobilize public opinion to accept changes that many will find uncomfortable. This includes changing the very landscape of the U.S. political system in a way that makes sense, given the current dangers or threats to U.S. physical and economic security. The wants and needs of the many bureaucracies should be subordinate to the needs of the country and its people. According to Kennedy:

The pace and complexity of the forces for change are enormous and daunting; yet it may still be possible for intelligent men and women to lead their societies through the complex task of preparing for the century ahead. If these challenges are not met, however, humankind will have only itself to blame for the troubles, and the disasters, that could be lying ahead.<sup>3</sup>

There are always going to be tensions within the executive branch. No two decision makers view the world exactly alike. When they are looking through the lens of their specific agency, they tend to see the direction of the United States through the world of bureaucratic politics and the need for self-survival. Members of Congress are pressured by special interests and are never insulated

from parochial political forces that may influence decision making. For these reasons, the following recommendations are presented.

#### Recommendations

The thesis has already discussed the important economic objectives, ways, and means necessary for using the economic instrument of power to achieve U.S. national security objectives. There is no reason why the government cannot begin to increase U.S. economic power (means) at the same time economic policymakers are formulating and writing a national economic strategy document to guide economic policymaking. It may take several iterations to get it right. However, there has to be movement toward this endstate.

It is beyond the scope of this paper to provide detailed analysis on how the United States might consider appointing a lead agency and reorganizing the government to facilitate the development, writing, and implementation of economic strategy. However, it is an important matter for further in-depth study. There is no single department to formulate and implement national economic strategy. The Department of Defense has this mission with national military strategy. Because of this, national economic decision making is too diffuse. Currently, the executive branch is not properly organized to provide coherent economic strategy formulation and communication to implementing departments and agencies.

Don M. Snider, Director of Political-Military Studies at the Center for Strategic and International Studies, also believes

that the way the executive branch is organized prevents it from effectively providing long-range strategy. He writes:

While the adoption of comprehensive strategy reviews at set intervals would address one problem with the coherent formulation of strategy, a much more formidable constraint also is apparent from experiences, which is offered as a third conclusion--the Executive Branch is not well organized to accommodate the changing metrics of national power, particularly the reascendancy of economic power in the formulation and execution of future U.S. grand strategy.<sup>4</sup>

He makes the point that the U.S. failed to effectively deal with the federal budget and trade deficits in the 1980s, leading to the even greater problem today. Snider acknowledges that no less than five cabinet members are intimately involved with making economic policy. There is no one official with the power or influence to make coherent economic strategy. These departments include the Offices of the Secretaries of Treasury, Commerce, State, Defense, and the U.S. Trade Representative.<sup>5</sup> The Office of Management and Budget (OMB), the Council of Economic Advisors, and the Department of Agriculture are other agencies intimately involved with economic policymaking. Because there are so many bureaucracies with ideas about implementing economic power, it is no wonder that the development of a coherent economic strategy is often viewed as impossible.

The United States needs to focus its efforts to develop a coherent national economic strategy to deal with the threats of the future global environment. Currently the diversity and bureaucratic nature of the economic policymaking agencies prevent them from agreeing on a single strategy. Some are just concerned with domestic economic issues that may not support international economic policy. President Clinton has at least moved in the right direction by creating a National Economic Council (NEC) on a level with the National Security Council. The head of the NEC is the primary Economic Advisor to the

President, and is now included as a non-statutory member of the National Security Council. The NEC needs to be more than just another executive branch agency concerned with economic issues. It should be empowered with the responsibility of formulating national economic strategy and writing the strategy document to guide the economic departments of the other agencies. Better still, eliminate the economic representative positions from the Departments of Treasury, State, Commerce, and the U.S. Trade Representative and have them merge with the National Economic Council. This would eliminate some bureaucratic fat while re-focusing the country on the security threats of the twenty-first century.

This type of forward-looking change may be rather difficult on administrations that are normally trying to manage a current crisis or get out of one. Snider believes that administrations do not have the time to look into the future and be true strategic planners. He says, "Long-range planning and strategy formulation will always run a poor second to the pressing combination of crisis management and near-term policy planning and implementation."<sup>6</sup> The fact that presidents are only in office for short periods of time may prevent them from being more far-sighted and visionary about the long-term needs of the country.

The theme of reorganizing government is not new. Clyde Prestowitz prescribes a bold change for the reorganization of government. He writes:

Combine the Department's of Commerce, Energy and Transportation, Office of U.S. Trade Representative, the Export-Import Bank, NASA, the National Science Foundation, Office of Science and Technology Policy and Defense Advanced Research Projects Policy into the Department of Industry and Trade. This new department should coordinate U.S. industrial policies and stand as a commercially oriented counterweight to the Pentagon's overwhelming influence.<sup>7</sup>

President Reagan did propose the establishment of a Department of International Trade and Industry (DITI) in 1983. However, this

counterpart to Japan's MITI fell on deaf ears with conservative Republicans and was quietly dismissed.<sup>8</sup>

Robert Paarlberg argues that the United States needs to first pay attention to its internal economic policies before it can be a leader abroad. He claims that divisions within the executive branch, congressional power over foreign economic policy, and the growing power of state and local governments prevent the United States from being an effective world leader. He believes that the U.S. must put its own house in order before it can project leadership beyond its borders and search for cooperative followers. America needs to lead by example first to exert the most influence abroad.<sup>9</sup> Paarlberg writes:

Serious policy discontinuities are unavoidable; between 1981 and 1988 the U.S. Department of Commerce had four different assistant secretaries for trade and development. Many political appointees come to office with no prior knowledge of one another, and frequently with inadequate technical knowledge.<sup>10</sup>

President Clinton's NEC is an attempt to improve the coordination of economic policy within the executive branch. However, the NEC "had trouble, in early 1993, proposing a single framework to guide future U.S. trade negotiations with Japan."<sup>11</sup> The Council's proposal contained separate negotiating tracks corresponding to the desired involvement of the Secretaries of Treasury, State, Defense, and Commerce, and the U.S. Trade Representative.

The exact mechanics of government reorganization is left to those in positions to better measure the costs and benefits of such change. The United States must look past its victory in the Cold War and not rest on its laurels. The strategy that won the Cold War will not provide victories on the fields of economic strife and will not provide the necessary documented framework to protect the United States against the dangers of the future security environment. Policymakers should have a vision of where the United States will be in the twenty-

first century and how it will get there. The United States needs an empowered organization and a written national economic strategy to reach that endstate.



#### Endnotes

<sup>1</sup>Paul Kennedy, Preparing For the Twenty-First Century (New York: Vintage Books, 1993), 322-323.

<sup>2</sup>Ibid., 323.

<sup>3</sup>Ibid., 349.

<sup>4</sup>Don M. Snider, The National Security Strategy: Documenting Strategic Vision (Carlisle Barracks, PA: U.S. Army War College, March 15, 1995), 18.

<sup>5</sup>Ibid.

<sup>6</sup>Ibid., 16.

<sup>7</sup>Clyde V. Prestowitz, Jr., "A Less Powerful Economy Will Make America Less Powerful, Harvard Business Review (November-December 1988): 94.

<sup>8</sup>Donald M. Snow and Eugene Brow, Puzzle Palaces and Foggy Bottom: U.S. Foreign and Defense Policy-Making in the 1990s (New York: St. Martin's Press, 1994), 105.

<sup>9</sup>Robert L. Paarlberg, Leadership Abroad Begins at Home: U.S. Foreign Economic Policy After the Cold War (Washington, DC: The Brookings Institution, 1995), 87.

<sup>10</sup>Ibid., 37.

<sup>11</sup>Ibid., 39.

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